

U.S. Government Assistance to and Cooperative Activities with the New Independent States of the Former Soviet Union

FY 1997 Annual Report

Prepared by the Office of the Coordinator
of U.S. Assistance to the NIS

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FOREWORD

This Annual Report describes the U.S. Government activities that supported reform in the twelve New Independent States (NIS) of the former Soviet Union during Fiscal Year 1997.

This past year, we began to restructure our assistance activities toward more cooperative efforts under the Partnership for Freedom, which emphasizes trade and investment, people-to-people linkages and the development of civil society in the NIS.

This report summarizes our contributions to economic and political reform in each of the twelve NIS on a country-by-country basis. It describes the full range of assistance activities through which the U.S. Government is staying engaged in this strategic region of the world. We are pleased to be helping in this historic endeavor.

Ambassador Richard Morningstar
Special Advisor to the President
and Secretary of State on
Assistance to the NIS

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I. INTRODUCTION

Over the past five years, U.S. Government assistance to the New Independent States (NIS) of the former Soviet Union has reinforced the overall U.S. policy toward this crucially important part of the world: to foster security, stability and prosperity; to develop constructive relationships with the region; and to prevent the emergence of another significant threat to U.S. national security. The security of the United States and the rest of the world is immeasurably enhanced if Russia and the other NIS are stable, market-oriented democracies. The U.S. Government has devoted significant resources to this goal over the past five years—almost \$10 billion in grants and \$14.6 billion in financing.

This report describes the progress made by U.S. Government assistance programs and cooperative activities with the NIS countries in FY 1997. These programs were designed to (1) promote democratic institution-building, the rule of law and the establishment of a civil society; (2) help establish open and competitive market economies and expand opportunities for trade and investment; and (3) enhance U.S., NIS and international security through cooperative threat reduction and nonproliferation efforts.

PROGRESS MADE IN FY 1997

In FY 1997, the Coordinator of U.S. Assistance to the NIS began restructuring NIS assistance activities under the Partnership for Freedom initiative. This restructuring recognized that our assistance efforts needed to be focused on investment-led economic growth, people-to-people linkages, and the development of civil society. Especially in Russia, and to a lesser extent in the other NIS countries, the basic institutional building blocks of market economies and democratic governments were being put in place. Technical assistance provided by the U.S. Government and other donors had played an important role in this process. Attention could now be gradually shifted towards more cooperative activities that would enable the United States to remain engaged in the NIS region, such as U.S. investments in small and medium-sized enterprises; partnerships between U.S. and NIS universities, hospitals, non-governmental organizations, cities, and business and professional associations; and exchanges between U.S. and NIS students, professionals and entrepreneurs. In addition, we would continue to move our assistance activities out of the capital cities and into the regions, particularly in Russia. For example, the Regional Investment Initiative (RII) in Russia established centers in three Russian regions—Novgorod, Khabarovsk and Samara. These and other grassroots activities funded by the U.S. Government helped promote long-term stability in the region and supported the transitions of the NIS countries to free-market democracies.

The following three sections provide brief assessments of U.S. Government-funded activities in the areas of democratic reform, economic reform, and cooperative threat reduction and nonproliferation in FY 1997.

Democratic Reform Programs

In FY 1997, the trend toward democracy continued to gain momentum in many, but not all of the NIS countries. As was the case in FY 1996, the most serious setbacks occurred in Belarus, where a combination of increasing authoritarianism on the part of President Lukashenko and actions taken by the Belarusian Government to shut down the grant-making operations of the Soros Foundation's Open Society Institute left the fate of the country's non-governmental sector in doubt, and left our embassy-based Democracy Fund as one of the few remaining sources of support available to Belarusian non-governmental organizations (NGOs). In the Caucasian and Central Asian countries, progress in democratic reform was once again varied in FY 1997, as these countries' presidents, with a few exceptions, continued to dominate over their legislatures and judiciaries. Nevertheless, the most encouraging signs of progress appeared under the more adverse circumstances. For example, although President Nazarbayev continued to have a firm grip over Kazakhstan's parliament and judicial system, parliamentary deputies forged ahead and made full use of their right to introduce legislation. Similarly, in Azerbaijan, opposition political parties and independent media outlets continued to be active despite continued government harassment and censorship.

In FY 1997, U.S. Government assistance to the NIS in the area of democratic reform continued to focus on democratic institution-building and, in particular, on strengthening institutions and organizations which provide checks and balances against centralized power, such as independent legislatures and judiciaries, independent media, transparent and accountable local governments, and extensive networks of NGOs which provide a

channel for public involvement in the policy-making process. An increased emphasis was placed on expanding people-to-people linkages through low-cost, high-impact activities such as community-based exchanges and training, and U.S.-NIS institutional partnerships which were designed to be increasingly self-sufficient and ultimately self-sustaining. For example, USIA's Community Connections program, which was active in Moldova, Russia and Ukraine in FY 1996, was expanded in FY 1997 to give groups of public and private-sector leaders from Armenia, Belarus and Georgia an opportunity to build linkages with their U.S. counterparts. Similarly, USIA's Teaching Excellence Awards rewarded the efforts of Russia's and Ukraine's most innovative teachers, providing their schools with educational equipment and giving them an opportunity to participate in professional development programs alongside their U.S. counterparts.

Organized crime and corruption issues continued to hinder reform and foreign investment throughout the NIS in FY 1997. U.S. Government law enforcement agencies continued to work with their NIS counterparts to combat the spread of Eurasian organized crime and corruption, with an increased emphasis on community-based programs, as well as on programs to combat violence against women. In addition, the Coordinator's Office worked closely with USAID, the Departments of Justice and Commerce, and USIA to initiate an integrated program to combat corruption and increase governmental transparency in Ukraine.

Following up on the First Lady's September 1996 meeting with U.S. private-sector foundations, the goal of which was to facilitate closer coordination of efforts to promote civil society in Central Europe and the NIS, sector-specific follow-up meetings were held in the areas of education and media programs.

Economic Reform Programs

In FY 1997, several of the NIS countries continued to make steady if slow progress on economic reform and macroeconomic stabilization. Many of them, including Russia, Georgia, Azerbaijan, Kazakhstan, Kyrgyzstan and Moldova, succeeded in keeping down inflation and attaining some macroeconomic stability—progress which is critical to future economic growth. With the first stage of privatization—that of small and medium-sized enterprises—complete, Russia, Kazakhstan and others began moving towards privatization of larger, “blue-chip” state companies, including those in the energy sector. Russia, in particular, made progress on increasing competition and revenue generation under its privatization program, although it continued to experience severe budget shortfalls.

Despite this progress, most of the NIS have yet to adopt the full range of legal and regulatory reforms necessary to establish fully functioning market economies and to translate macro-economic stabilization into economic growth. As a result, foreign direct investment flows into the NIS remained modest in 1997. Ukraine, in particular, found it difficult to adopt needed economic reforms or to take the steps needed to improve investment opportunities and to combat corruption. In Russia, the State Duma (lower house of parliament) devoted a great deal of effort to the drafting of a comprehensive tax reform package, which observers agree is critical to an improved investment climate, but failed to secure adoption of this legislation in 1997. Many Russian regions have apparently decided not to wait on the federal government, and have begun adopting economic reforms at the regional level in an effort to attract more investment.

A few of the NIS, including Georgia and Kyrgyzstan, achieved real economic growth in 1997. Georgia, in particular, turned in an impressive performance after years of economic upheaval, and has committed itself to carry out a comprehensive economic reform program in 1998.

In FY 1997, under the Partnership for Freedom, the U.S. Government focused more of its resources, particularly in Russia, on activities designed to promote trade and investment, in an effort to help promote economic growth. The United States and Russia launched a Regional Investment Initiative (RII) in three Russian regions whose local governments were deemed to be among the most reform-minded and most hospitable to investment. The RII, which will continue and expand in 1998, is designed to help create regional success stories by helping these regions attract more investment. Meanwhile, the U.S. Government continued its work in support of the economic transformation of the NIS, including post-privatization activities in countries that have completed the bulk of their privatization effort.

Cooperative Threat Reduction and Nonproliferation Programs

In FY 1997, the enhancement of U.S., NIS and international security through cooperative threat reduction and nonproliferation programs remained one of the U.S. Government's highest assistance priorities. U.S. Government agencies continued a wide range of activities, providing a comprehensive and multi-layered approach to address the threats posed by the remaining arsenal of former Soviet weapons of mass destruction, weapons materials, technology and expertise, and to promote regional stability. Since FY 1992, nearly \$2.5 billion has been budgeted for U.S. security-related assistance and cooperative programs. These funds represent a relatively small investment with an extraordinary return.

The U.S. Defense Department's Cooperative Threat Reduction (CTR) or "Nunn-Lugar" program continued to successfully expedite strategic offensive arms reductions in Russia pursuant to the START Treaties; help deactivate SS-19 and SS-24 missiles in Ukraine; and assist in the elimination of SS-18 silos and closure of nuclear test tunnels in Kazakhstan. Efforts continued to increase the security of nuclear warheads and materials in transit or storage and help "jump start" Russian chemical weapons destruction. The Russian Duma ratified the Chemical Weapons Convention in 1997, adding momentum to these CTR efforts. CTR assistance also supported nonproliferation activities with Georgia, Uzbekistan and Moldova. One of the highlights in 1997 was the purchase and removal from Moldova of 21 nuclear-capable MiG-29 airplanes, 500 air-to-air missiles, and associated equipment. Belarus was not certified as eligible to receive CTR assistance during FY 1997 and thus, no new CTR obligations were incurred. The Department of Defense (DoD) also made progress in implementing training activities of the DoD/FBI Counterproliferation Program, initiated the DoD/Customs International Border Security program, and continued a wide range of military-technical cooperative efforts with the NIS.

The U.S. Department of Energy (DOE) continued to successfully upgrade Material Protection, Control and Accounting (MPC&A) systems at over 50 NIS facilities, improving the security of tons of weapons-usable nuclear material, as well as capabilities to detect attempted thefts of material. Upgrade efforts were initiated in FY 1997 with the Russian Navy and Icebreaker Fleet, and a new program was undertaken to enhance the security of rail transportation of nuclear materials. MPC&A cooperation also was expanded with GosAtomNadzor, Russia's nuclear regulatory agency. MPC&A upgrades have been completed at 17 NIS facilities, but much work remains to be done. Recognizing the high priority of these efforts, funding was increased from \$112 million in FY 1997 to \$137 million in FY 1998. Under DOE's Initiatives for Proliferation Prevention (IPP), over 80 new research projects were approved in FY 1997, bringing the total number of IPP projects funded to 376 and the number of former Soviet weapons scientists involved to over 3,500. Three IPP projects resulted in commercial production activities. In addition, DOE's Fissile Materials Disposition (MD) Program made progress on a series of U.S.-Russian small-scale tests and demonstrations of technologies to dispose of weapons-derived plutonium no longer required for defense purposes.

The State Department's Science Centers added over 250 projects in FY 1997, redirecting the efforts of an additional 3,000 former Soviet weapons scientists and engineers to peaceful research activities. This brings the total number of scientists engaged through the Science Centers since 1992 to nearly 21,000. Norway acceded to the Agreement of the International Science and Technology Center (ISTC) in Moscow, joining the United States and the Governments of Japan, Russia, the European Union, Armenia, Belarus, Georgia, Kazakhstan and Kyrgyzstan as members. In addition, the Republic of Korea began formal ISTC accession procedures. The Science and Technology Center in Ukraine was also in the process of expanding its membership, with the European Union and Uzbekistan preparing for accession.

The U.S. Department of State also made progress in FY 1997 in the area of export control assistance, funding 11 projects totaling \$3.4 million under the Nonproliferation and Disarmament Fund (NDF), to help the NIS develop effective export control systems and capabilities. The Department of State coordinates these efforts with other U.S. Government agencies providing related assistance, including the DoD/FBI Counterproliferation, DoD/Customs International Border Security and DOE Export Control programs. These programs are critical elements of the U.S. Government's efforts to prevent, deter or detect potential proliferation of weapons of mass destruction and weapons materials. Recognizing the importance of this assistance, in FY 1998, the level of funding for such export control/counterproliferation assistance has been increased.

U.S. Government assistance efforts continued to support NIS independence, sovereignty and territorial integrity, as well as the development of normal relations among the NIS and with their neighbors. In 1997, the U.S. Government strongly encouraged NIS participation in NATO's Partnership for Peace (PFP). A Presidential Determination was signed in 1997 allowing eight NIS—Russia, Ukraine, Kazakhstan, Georgia, Kyrgyzstan,

Moldova, Turkmenistan and Uzbekistan—to be eligible for the first time for Foreign Military Financing (FMF). FMF provides for the acquisition of U.S. defense articles, services and training which, along with DoD support for exercises, conferences and other events, facilitates participation in PFP activities and enhances interoperability with the United States and our NATO allies. In addition, International Military Education and Training (IMET) opportunities for the NIS were increased in FY 1997 to foster understanding of the principle of civilian control of the military.

All of these assistance efforts are in our national security interests. After having spent trillions of dollars to defend ourselves against the Soviet threat, for a fraction of this cost, U.S. security-related assistance and cooperative programs are helping to ensure the historic transformation in the NIS and preventing the emergence of new threats in the post-Cold War world.

FINANCIAL SUMMARY

Funding for U.S. Government assistance to the NIS reached its lowest level in FY 1997. From the FY 1994 peak of \$2.5 billion, FREEDOM Support Act assistance funds dropped to \$850 million in FY 1995, \$641 million in FY 1996 and \$625 million in FY 1997. With the introduction of the Partnership for Freedom, the U.S. Congress appropriated \$770 million for NIS assistance in FY 1998.

As of the end of FY 1997, cumulative appropriations for the FREEDOM Support Act, Cooperative Threat Reduction and the other major assistance and cooperative programs totaled \$10.97 billion, of which approximately \$10.19 billion had been obligated by the end of FY 1997 (see Appendix). FREEDOM Support Act obligations increased by approximately \$722 million in FY 1997.

STRUCTURE OF THE FY 1997 ANNUAL REPORT

Section II of this report contains assessments of U.S. Government assistance programs by country, each of which begins with a brief overview of the political and economic developments in each country in FY 1997. Section III describes the major U.S. Government-funded regional assistance programs, trade and investment programs, and cooperative activities. Section IV presents our evaluation of the performance of each of the NIS countries according to the criteria in Section 498A of the Foreign Assistance Act of 1961. Section V describes the use of the "notwithstanding" authority provided to enable U.S. Government assistance programs to move forward without delay.

The appendix of this report provides cumulative summary charts of assistance funds budgeted, obligated and expended as of the end of FY 1997, as well as a summary of U.S. Government commercial financing and insurance. Due to start-up problems with the electronic accounting system that USAID introduced last year, USAID continues to be unable to provide reliable obligation and expenditure data for its programs worldwide. The USAID section of the Cumulative Funds Obligated chart therefore contains estimated obligation data as of September 30, 1997, and the USAID section of the Cumulative Funds Expended chart contains expenditure data as of September 30, 1996, which are the most up-to-date estimates available. USAID has assured the Coordinator's Office that it is doing its best to resolve these problems. The Coordinator's Office will issue updated summary charts as soon as it receives reliable data from USAID.

Like our other annual reports, this report will be available on the Internet on the State Department's World Wide Web homepage at the following address: www.state.gov/www/regions/nis/index.html. This report was produced by the Office of the Coordinator of U.S. Assistance to the NIS, and was compiled and edited by Ivars Kuskevics and Kim Savit. The financial charts in the appendix were prepared by Dean Fischer. Please direct comments and questions to Ivars Kuskevics at (202) 647-0832 or by e-mail to the following address: ikuskevics@usaid.gov

II. COUNTRY ASSESSMENTS

The following country assessments provide an overview of U.S. Government assistance programs and their effectiveness in each of the twelve New Independent States in FY 1997. These assessments, which also contain brief overviews of political and economic developments in each of the twelve countries, are based on information provided by our embassies, as well as by the various U.S. Government agencies providing assistance to the NIS.

ARMENIA

Political and Economic Overview

In 1997, the Government of Armenia played a constructive role in international efforts to find a peaceful settlement to the Nagorno Karabakh dispute, which dominated Armenian politics. Many elected representatives of opposition parties continued to boycott the National Assembly to protest irregularities in the 1996 presidential elections. USAID-funded projects through the International Foundation for Election Systems (IFES), National Democratic Institute (NDI), American Bar Association (ABA) and other groups contributed to legislative work, and to sweeping reform of Armenia's legal and judicial system. Political attention was increasingly focused on creating the conditions for free and fair parliamentary elections by mid-1999.

Though Armenia's economic indicators were not as positive as they were in 1995 and 1996, the government continued to make significant strides in many areas of economic reform. GDP growth was down, but remained positive. Inflation approached 20 percent, and the trade deficit grew. Sectors of the population remained heavily dependent on foreign aid and remittances. Maintenance of macroeconomic stability allowed Armenia to receive important World Bank and International Monetary Fund (IMF) concessional lending. Financial and technical assistance provided by international financial institutions encouraged the government's efforts in energy reform, consolidation and computer automation of the banking sector, privatization, and revision of the budget law and tax system.

Overview of U.S. Government Assistance

In FY 1997, the U.S. Government provided approximately \$131.4 million in assistance to Armenia, including \$23.1 million in privately donated, U.S. Government-transported humanitarian commodities. Assistance was provided in the following areas: economic restructuring, fiscal and banking reform, partnerships and exchanges, democracy and good governance, energy-sector reform, private-sector development and humanitarian assistance. The U.S. Government's previous emphasis on providing humanitarian assistance to Armenia continued to evolve into a more balanced program focusing on developmental assistance and support for trade and investment to assist private-sector development. Approximately 65 percent of U.S. Government assistance resources for Armenia were devoted to humanitarian assistance and 35 percent to development assistance. However, a significant portion of the humanitarian assistance budget was used to leverage important reforms and privatization in the energy sector and bread industry, respectively. These humanitarian assistance programs contributed significantly to Armenia's economic development and privatization efforts. (see below)

A total of \$11 million in private-sector development assistance was provided in the form of loans and grants to entrepreneurs. (As in previous fiscal years, enterprise fund monies were set aside, with utilization to begin in FY 1999.) Other allocations included \$7.5 million for economic restructuring, including fiscal, banking and real estate reform; \$3.25 million for the Agriculture Marketing Assistance Program; \$5 million for democratic reform activities focusing on legal, judicial, political and civic organizations and the media; and \$12.5 million for energy-sector reform, including \$6 million for nuclear safety at Armenia's Medzamor nuclear power plant. A total of \$2 million was allocated for U.S.-based training and exchanges.

Allocations of U.S. Government humanitarian assistance included \$30 million for natural gas deliveries; \$23.2 million for wheat; \$4 million for kerosene for schools and those living in temporary shelters in Armenia's earthquake zone; \$11 million for food commodities distributed to vulnerable populations and/or monetized for development projects by private voluntary organizations (PVOs); and \$25 million in humanitarian assistance commodities—primarily medicines, medical supplies and food—donated by U.S. PVOs and the U.S. Department of Defense.

With the help of a broad range of U.S. Government assistance, the Government of Armenia instituted reforms in virtually every area of the country's economy in FY 1997. The U.S. Government provided flexible, high-quality assistance in many forms to meet the needs of Armenia's economy in transition, ranging from the provision of basic survival commodities to sophisticated financial advice. Since 1992, U.S. Government-funded programs have played an increasingly important role in the development of a market economy and promotion of democratic reform in Armenia.

Democracy and Governance Programs

The embassy-based, USIA-administered **Democracy Funds Small Grants Program** awarded 23 small grants totaling \$194,000 to institutions such as human-rights groups, independent radio and television stations, and organizations for youth and the disabled. These grants supported efforts to open independent media outlets, monitor the country's human-rights situation, educate voters, and develop civic education curricula.

USAID's democracy and governance programs achieved some progress towards their two major objectives: increased citizen participation in political and economic decision making through the development of a civil society, and the development of a legal system which better supports democratic and market reforms. Slow progress in some areas reflected both the magnitude of the task and the lack of political will on the part of some of our Armenian partners.

- **Civil society development programs** focused on access to information, public advocacy, and reforms in the political process. Overall progress in this area has been gradual but significant.
- **Media assistance programs** implemented by USAID grantee Internews focused on the development of independent broadcast media. Over 15 independent television stations received technical assistance from Internews and contributed to the weekly independent news exchange program "Storaket," which had an estimated audience of up to 1 million viewers nationwide and aired its fiftieth episode in November. As a result of protests by Armenia's non-governmental media, a severely restrictive draft broadcast law was halted in the legislative process so that changes could be incorporated based on recommendations from international experts and local independent stations.
- **USAID's non-governmental organization (NGO) development programs** focused on helping Armenian NGOs with achieving sustainability, government lobbying, public voluntary work, ethics, public education and outreach. With the help of the NGO Training and Resource Center, a USAID-funded project of the Armenian Assembly of America, 50 NGOs lobbied the parliament to amend a draft law on public organizations that allowed for inappropriate government interference. Although significant progress could be seen in the area of NGO-government dialogue, further effort is required to strengthen linkages between NGOs and their constituencies.
- Despite significant efforts on the part of the **International Foundation for Election Systems (IFES)** to help revise Armenia's electoral legislation and procedures in the wake of the flawed 1996 presidential elections, partisan considerations slowed full implementation of electoral reforms. IFES worked with the parliament on a comprehensive electoral code based on international standards. The USAID-funded **National Democratic Institute (NDI)** had some success in facilitating political dialogue between the opposition and the ruling party. A U.S.-based training program for 10 political party representatives from the 7 major parties led to the establishment of a monthly roundtable that engages in productive political dialogue between parties. A series of NDI seminars provided useful training on coalition-building to government officials and opposition members.
- **USAID-funded legal reform efforts** focused on the development of several pieces of key legislation, reform of the country's legal profession, and judicial reform. In the area of legislative drafting, U.S. legal specialists worked closely with Armenian drafters and European experts on three of the four legal codes which will be key to Armenia's political and economic transition. It is expected that the codes, which provide the legal and regulatory framework for the country's new civil law system, will be adopted in 1998. The **American Bar Association's** USAID-funded **Central and East European Law Initiative (ABA/CEELI)** worked with a new judicial association on providing continuing legal education for Armenian judges, and worked with a number

of small local attorneys' groups to develop a national bar association. In addition, significant technical and material assistance was provided to Armenia's Constitutional Court.

Training and Exchange Programs

USAID: A total of 114 Armenians participated in U.S.-based short-term training programs, and three others attended third-country training programs. Trainees completed programs in national budgeting and municipal financial management, banking supervision, horticulture and agribusiness, media technical skills, NGO management and airport management. An additional 20 individuals received project-related training on a fee-for-services basis. These training activities included courses in the organization of small and medium-sized enterprises and enterprise accounting standards. In addition, board members of Armenia's new energy regulatory commission participated in a U.S. study tour.

USIA: Over 90 Armenians participated in USIA exchange programs. In addition to high school, graduate and post-graduate educational exchanges, groups of Armenian professionals traveled to the U.S. for one- to four-week programs. Participants included the spokesperson for the Ministry of Foreign Affairs, senior researchers at the Institute of National Economy and the Ministry of Agriculture, national university professors and independent television station directors. Through USIA's Community Connections program, 14 Armenian school administrators and business people participated in community-based homestays with Americans working in the same professions, and another 30 curriculum developers and civic educators will travel in FY 1998. USIA also hosted several U.S. speakers who addressed topics such as media, civil society and education. One of these speakers was a deputy commissioner for the Federal Communications Commission (FCC) who participated in an international symposium on broadcasting and the important draft broadcasting law.

U.S. Department of Commerce - Special American Business Internship Training (SABIT) Program: Under the Commerce Department's SABIT Program, two Armenians participated in programs in the areas of telecommunications and energy standardization, two in environmental technologies, two in finance and banking, and three in food processing and packaging.

Business and Economic Development Programs

U.S. Government objectives in the area of economic restructuring included the accelerated development and growth of private enterprise, as well as the development of a more competitive and market-responsive financial sector. Towards the first objective, USAID promoted export-led private-sector growth through acceleration of privatization and improvements in enterprise governance. USAID-funded activities focused on strengthening the banking system to lower the costs of investment finance; improving public infrastructure services (particularly energy, water and transportation) and the related regulatory framework; enforcing public laws and regulations; and improving government transparency. U.S. Government assistance also continued to play a crucial role in facilitating Armenia's entry into the World Trade Organization (WTO). Armenia hopes to accede to the WTO in 1998, which would make it the first NIS country to do so. USAID's Housing Reform Project contributed to new laws on local self-government and a unified property registration system, and the introduction of competitive service contracting for municipalities.

USAID collaborated with the IMF on the creation of an adequate financial infrastructure. Projects included hardware and software upgrades and training for Armenia's central bank. The **Barents Group**, a USAID grantee, offered training and accounting conversion for commercial banks. Other USAID-financed activities such as loans funded by the **Eurasia Foundation** (see below) targeted micro-, small and medium-sized enterprises. Technical assistance, including legislative analysis, promoted the creation of a fair commercial legal and regulatory environment. Unfortunately, the pace of overall economic growth continued to suffer from the effects of political uncertainty at the regional level.

U.S. Department of the Treasury: Three U.S. Treasury Department advisors provided practical assistance to the Ministry of Finance on the development of a new budget law, a new treasury bill (T-bill) program and tax administration. Even with its imperfections, the new tax law represented a very significant achievement in the movement away from Soviet models, and work continued on budget implementing procedures. The T-bill program financed approximately 27 percent of Armenia's 1997 government debt, up from 20 percent in 1996, when it was introduced. In the area of tax administration, the Treasury Department advisor conducted a review of current administrative tax laws in preparation for recommending reform strategies. Visiting Treasury Department experts also provided well-received training to new Finance Ministry officials.

- **Budget Reform:** In August, Treasury's resident budget advisor completed a two-year residency during which he helped draft the organic budget law and organized training for Finance Ministry staff.
- **Tax Policy and Administration:** A resident tax-administration advisor to the Ministry of Finance and the State Tax Service began his assignment in July, providing technical assistance in establishing a modern tax administration system focusing on development of audit techniques. (The Finance Ministry also requested a tax policy advisor.)
- **Government Debt:** The resident advisor on government debt has been working with the Armenia's Ministry of Finance since November 1995, as well as with a counterpart at the central bank. The advisor's main focus has been on developing a primary market for government securities, which is well under way. The focus of the advisor's activities is now shifting to the establishment of a legal framework for securities and broadening and deepening the market. The advisor has expanded the domestic sales of treasury bills and has increased Armenia's appeal to international investors.

Trade and Investment Programs

An active U.S. Government presence and improving local conditions have resulted in a substantial increase in the number and quality of U.S. business interests and operations in Armenia during the last few years, from 19 in 1994 to 60 in 1997. With embassy assistance, U.S. investors were active in oil and gas exploration, gold mining, fruit juice packaging, semiconductor production, television broadcasting and freight forwarding. Projects in software development, construction services and materials, transportation and electronics expanded this past year. American firms also expressed interest in some of the large Armenian enterprises privatized through international tender. The embassy prepared numerous reports identifying opportunities for U.S. investment and exports in various regions and sectors in Armenia. U.S. assistance to the banking sector contributed to consolidation and strengthening of bank operations, allowing more lending. The **U.S. Export-Import Bank** signed a project incentive agreement with Armenia, and the **Overseas Private Investment Corporation (OPIC)** is developing both an equity investment fund and a direct lending program.

Energy and Environmental Programs

USAID's primary goal in Armenia is to create a more economically sustainable and environmentally sound energy sector. With USAID assistance, the government has made substantial reforms in the energy sector: (1) the electricity monopoly was broken up into separate companies according to function (generation, transmission, distribution); (2) the Armenian Government increased tariffs and improved collection rates; (3) an independent regulatory body was established to set tariffs and create an appropriate framework for private investment; and (4) a comprehensive energy law was passed by the parliament in June 1997. USAID contractors also drafted a privatization implementation strategy and initiated pilot commercialization projects in the electrical power and gas distribution sectors.

In its first privatization of existing assets in the power sector, Armenia privatized 10 mini-hydroelectric facilities and is proceeding to privatize 12 others. This resulted directly from FY 1996 U.S. Government-funded humanitarian assistance that was tied to energy-sector reform. Gas procurement assistance helped secure a presidential decree establishing an independent regulatory commission, another "first" for Armenia. The natural gas deliveries also enabled Armenia's Medzamor nuclear plant to be taken off-line for maintenance and refueling. U.S. providers supplied critically needed parts to enable the gas storage station to continue to operate.

The **U.S. Geological Survey (USGS)** worked closely with the Ministry of Environment and Interior Resources (MEI) on a coal exploration program. USGS engaged in exploration drilling, geophysical and geochemical activities, as well as training of MEI staff to use rehabilitated seismic equipment for further exploration. If developed, Armenia's existing coal resources and capacity could be used to supplant a portion of kerosene imports for winter heating.

With U.S. Government support, an environmental protection advocacy center—the first of its kind in Armenia—provided legal services to individuals and citizen groups, and offered community and university clinical law education, as well as legislative analysis in a wide range of environmental issues.

The efforts of the **U.S. Department of Energy** led to improvements in plant fire safety, the service water system, emergency operating instructions, and the auxiliary feedwater system and valves at Armenia's Medzamor nuclear power plant.

U.S. Nuclear Regulatory Commission (NRC): The NRC continued its efforts to strengthen the Armenian Nuclear Regulatory Authority (ANRA) and to help develop its nuclear regulatory and oversight capability, consistent with the U.S./G-7 policy priority of addressing safety concerns at Soviet-designed nuclear reactors. The NRC provided training in site security, spent-fuel handling, waste management, and seismic issues to approximately 30 Armenian regulators, bringing the total number of individuals trained since inception of the program to 35. In response to the restarting of the Medzamor plant's Unit 2, the NRC revised its program plans to include training on the operation of nuclear reactors.

Social Sector and Humanitarian Programs

As part of the effort gradually to reduce humanitarian aid and increase development aid, much of the humanitarian assistance provided in FY 1997 was used either to leverage reform in private-sector and PVO development or to help the Government of Armenia meet its budgetary priorities. Some humanitarian aid, however, continued to be distributed directly to vulnerable populations.

- **Natural gas** was provided to support the reform and economic restructuring of Armenia's energy sector. The deliveries provided 50 percent of Armenia's annual gas needs, and were instrumental in leveraging financial reform, restructuring and privatization, and oil and gas development.
- **Wheat Deliveries:** The U.S. Government provided approximately 100,000 metric tons of wheat to Armenia in FY 1997 from two sources: USDA and USAID. USDA provided \$15 million under the P.L. 480, Title I Food for Progress program, as a concessional loan for purchasing and transporting the wheat. Our embassy drew upon 40 percent of this amount to initiate an auction, which made the wheat available to private millers. This also forced state mills, acting like private companies, to compete for the wheat in the auction process—an important step toward privatizing the country's bread sector. USAID allocated \$8.2 million for the purchase and transportation of wheat to meet critical food needs, as well as support the reform of the bread sector. The total amount of this wheat, 35,780 metric tons, was also auctioned.
- **Winter Kerosene:** Now in its fifth year, the Winter Kerosene Program distributed 10,000 metric tons of kerosene to schools and to those living in temporary shelters in Armenia's earthquake zone. This important, high-profile program provided the only means of heat to a large segment of the population for the entire winter, and was the only source of heat for the majority of Armenia's schools. This year's program, down 50 percent from last winter, benefited about 32,000 households in the earthquake zone and 1,250 schools throughout Armenia.
- **Seed Delivery Programs:** The Government of Armenia purchased and the U.S. Department of State funded the transportation of 1,000 metric tons of spring barley seed, 500 metric tons of seed potatoes and 3,000 metric tons of wheat seed, at a total cost to the U.S. Government of approximately \$285,000.
- **Hospital Equipment/Supplies:** The Ministry of Health received a \$15 million donation of Defense Department excess hospital equipment and supplies. Under the project, which commenced in FY 1996, equipment and supplies were inventoried and packed in Germany, and a total of 30 physicians, technicians and logisticians traveled to Yerevan to manage the arrival of the 240 containers, distribute the equipment to the eight recipients, install it and provide related technical assistance.

- U.S. Government-funded **humanitarian relief programs** delivered food and non-food aid to over 30,000 internally displaced persons and refugees, and provided a food/commodity mix to urban-based pensioners, people displaced by the earthquake, and single-female-headed households—a total of over 100,000 individuals. The U.S. Government also provided support to vaccination programs and food-for-work programs.
- The U.S. Government provided \$300,000 to PAROS, a computerized database of 750,000 vulnerable households used by international organizations for the distribution of humanitarian aid. In FY 1997, PAROS focused on refining the formula used to rank a household's vulnerability and on improving the accuracy of its database. This unique capability allows USAID, other donor organizations and the Armenian Government to identify the most vulnerable populations. USAID also promoted self-sufficiency, community mobilization, and civic action at the grassroots level.

Cross-Sectoral Programs

“Save the Children” Federation (SCF): In FY 1997, USAID continued to support community development projects managed by SCF. The projects benefited thousands of urban and rural dwellers by improving access to potable water, irrigation for crops, and health and sanitation. Micro- and small business development projects increased income security by employing 6,532 individuals. Under the micro-enterprise program, 248 businesses received small grants and 500 micro-entrepreneurs received business and marketing training.

U.S. Department of Agriculture (USDA) Marketing Assistance Project (MAP): USDA's MAP program aims to create domestic and international markets for Armenia's high-value fruits and vegetables. This assistance includes demonstration loans, technical assistance, micro-enterprise development assistance, and a credit program for farmers' associations, agribusinesses, and food processors. A total of 4,121 families and 29,953 individuals benefited from MAP loans. MAP also provided educational programs, on-the-job training, demonstrations to develop expertise in marketing, and assistance to Armenia's Extension Service and Agriculture Academy.

Eurasia Foundation: In FY 1997, the USAID-funded Eurasia Foundation awarded 63 grants totaling \$1,092,187 in economics education and research, business development, business and management training, media, electronic communications, rule of law, and public administration. The Foundation also held two grant competitions. Ten grants were awarded to independent print media outlets, and six to institutes of higher learning for economics education. The Foundation's business development projects provided support to six regional business centers in cooperation with Peace Corps volunteers. The Foundation also supported projects in textiles, renewable energy, tourism, optics, and retail business, and awarded three innovative public administration grants for the purpose of automating municipal public information systems. The Eurasia Foundation's loan program worked through local banks to support manufacturing and service-sector projects in regions where suitable financing was not otherwise available, making a total of \$1.5 million in loans to small and medium-sized enterprises. The program also provided training and technical assistance to its Armenian partner banks to encourage them to lend their own capital to small businesses over the long term.

Peace Corps: A total of 49 Peace Corps volunteers—21 English teachers and 28 business development specialists—worked with Armenian Government and other foreign donor agencies, and were indispensable partners to successful U.S. Government-funded programs, such as those implemented by the Eurasia Foundation and USDA. Peace Corps volunteers helped design business development training and grant programs at the regional level and helped establish six regional NGO business support centers. The volunteers also helped local schools repair their buildings and equipment, and acquire teaching materials. English-teaching volunteers taught local schoolchildren and adults, and offered specialized classes for members of local non-governmental organizations (NGOs) and other community development groups. The volunteers conducted a community development tour for nine communities, helping them gain a better understanding of cultural diversity. In addition, the volunteers also organized teacher education workshops and summer camp programs designed to improve environmental awareness.

Partnership Programs

The **Civilian Research and Development Foundation (CRDF)** provided a total of \$500,000 to five cooperative applied research projects involving Armenian scientists, funded the establishment of the National Fund for Science and Advanced Technology, and will finance research and development projects in biotechnology, biology and chemistry.

Hospital Partnerships: Two U.S. Government-funded hospital partnerships were active in FY 1997: one with the Emergency Scientific Medical Center (EMC) at the Boston University Medical Center and one with the UCLA Medical Center. Both partnerships completed the first year of a two-year, reduced-funding, "graduation" phase of support focusing on nursing leadership and skill development, and the improvement of neo-natal intensive care.

The USAID-funded **United States Energy Association (USEA)** established partnerships between U.S. and Armenian utilities. This is a *pro bono* program for U.S. utilities and is a direct cooperative effort carried out by two operating organizations.

The **American University of Armenia (AUA) - University of California Boalt Law School** partnership continued to achieve results in FY 1997, with nineteen Armenian students accepted into the program's second cycle this past fall. A USIA-supported partnership between the **State Engineering University and the California Institute of Technology (Caltech)** resulted in curriculum improvements at the Armenian partner institution.

Security Programs

Armenia is an active member of **the International Science and Technology Center (ISTC)** in Moscow, and a number of former Soviet weapons scientists in Armenia are working on ISTC projects. (See Security Programs section in Part III)

Preview of FY 1998 Programs

In FY 1998, increased emphasis will be placed on education, training and exchanges, judicial training and reform, capital market development and privatization. There will also be a focus on building community-level capacity and services, with greater recipient participation. In addition, the U.S. Government will seek to promote increased regional cooperation. To address Armenia's continuing humanitarian needs, support will be given to international organizations, and to local NGOs and community groups for the purpose of developing and strengthening grassroots structures. In addition, a new congressional mandate will allow for the extension of humanitarian response mechanisms into areas affected by regional conflict, such as Nagorno Karabakh. However, the trend to reduce humanitarian assistance, especially commodities, will continue in FY 1998. Development and technical assistance will increase, especially in the areas of democracy and good governance, economic and energy reform, agriculture, marketing assistance, private-sector development, safety upgrades at the Medzamor nuclear power plant, support of independent media, and the establishment of new business centers.

AZERBAIJAN

Political and Economic Overview

The President of Azerbaijan and his executive office exercise highly centralized decision-making, which continued to dominate the political situation in Azerbaijan in FY 1997. The constitution, adopted in November 1995, called for the passage of a law on municipal elections and the holding of those elections within two years; however, the parliament failed to pass the necessary legislation. Opposition political parties, as well as independent print and broadcast media, continued to be active despite continued harassment and censorship. On the economic front, the government increased the pace of privatization with auction sales of shares in large state-owned enterprises. The continuation of austerity measures greatly reduced inflation in FY 1997, and interest rates fell as well. However, even though the Government of Azerbaijan stabilized the economy and began some economic reforms, economic opportunities for the bulk of the population remained bleak.

Overview of U.S. Government Assistance

In FY 1997, the U.S. Government provided approximately \$27.5 million in assistance to Azerbaijan, including \$10.8 million in privately donated, U.S. Government-transported humanitarian commodities. Section 907 of the FREEDOM Support Act prohibits U.S. Government assistance to the Government of Azerbaijan. As a result, most U.S. Government aid is in the form of humanitarian response programs directed to refugees and internally displaced persons (IDPs) through American private voluntary organizations (PVOs). A small share of U.S. Government assistance has been directed to non-humanitarian programs, such as private farm development support, and training and exchange programs.

Humanitarian Assistance Programs

“Save the Children” Umbrella Grant: As in FY 1996, the U.S. Government delivered most of its FY 1997 humanitarian assistance to Azerbaijan through an umbrella grant to “Save the Children” Federation. Save the Children distributed the funds, under USAID direction, to other American private voluntary organizations (PVOs), which implemented relief projects targeted at refugees and IDPs. In FY 1997, Save the Children distributed \$8,606,000 in active project funding for the following programs:

- **CARE** supported self-help projects for basic repair and weatherproofing to existing shelters (for 500 families), and the construction of new mud-brick houses and latrines (for 1,758 families).
- **Relief International’s** mobile health teams continued their program of monthly visits to IDP communities, bringing health care to some 250,000 patients.
- The **International Rescue Committee (IRC)** distributed clothing to 5,841 families, helped 545 families build new mud-brick houses, and helped 300 families with basic shelter repair.
- **World Vision International (WVI)** received operational funding for the distribution of UN World Food Program food to 106,000 IDPs. Using this operational funding, WVI also distributed UNHCR-provided commodities, including latrine and water filtration kits to 6,000 families, vegetable seeds to 16,000 families, and sewing kits to 8,000 families.
- **WVI and Mercy Corps International (MCI)** shared a \$2 million grant to rehabilitate public buildings occupied by IDPs and raise them to minimally acceptable standards of safety and sanitation. These rehabilitation projects benefited approximately 30,000 refugees and IDPs. MCI carried out its part of the project in partnership with Hayat, a local PVO, providing a substantial transfer of know-how to Hayat.

USAID provided approximately \$350,000 to Agricultural Cooperative Development International (ACDI)/Volunteers in Overseas Cooperative Assistance (VOCA) for the **Farmer-to-Farmer Program**, which provided technical assistance to small farmers.

Through the American Red Cross, the International Committee of the Red Cross (ICRC) distributed supplementary food and non-food items to the most vulnerable inhabitants of eight districts along the current cease-fire line. USDA and USAID jointly provided \$861,926 for this program, which included four categories of relief assistance: food parcels, soap, blankets and detergent. The State Department’s Bureau of Population, Refugees and Migration (PRM) provided an additional \$206,000 to the ICRC to build-up management capacity at the Azerbaijani Red Crescent Society’s local branches.

USDA Food Aid: In FY 1997, the U.S. Department of Agriculture (USDA) provided \$8,928,200 in food aid to Azerbaijan consisting mainly of wheat flour and vegetable oil. Two PVOs, CARE and the Adventist Development and Relief Agency (ADRA), distributed the food aid. ADRA provided \$5,430,200 in food aid to 40,000 needy families throughout the country. CARE distributed \$3,498,000 in USDA food aid (wheat flour, beans and vegetable oil) to IDPs within its designated operating area.

Coordinator's Office Humanitarian Assistance: The Office of the Coordinator of U.S. Assistance to the NIS (S/NISC) funded operating and transportation expenses for primary medical care programs run by the United Methodist Committee on Relief (UMCOR). With this funding, UMCOR brought \$4,644,619 of donated medicines to Azerbaijan. This program provided primary medical care to almost 110,000 IDP beneficiaries on the Apsheron Peninsula. S/NISC also funded a project by Counterpart International that distributed \$603,765 worth of commodities to orphans throughout Azerbaijan.

U.S. Government Assistance through United Nations Agencies: The U.S. Government is one of the main donors to the UN World Food Program's IDP supplementary feeding program in Azerbaijan. In FY 1997, the U.S. Government gave WFP \$1.5 million to feed needy people in Azerbaijan. WFP procured and delivered wheat flour, sugar and vegetable oil to Azerbaijan, which it distributed in cooperation with World Vision. In 1997, the U.S. Government also contributed \$1.5 million to the UN High Commissioner for Refugees (UNHCR) for relief programs in Azerbaijan.

Exchange and Training Programs

In FY 1997 the U.S. Government continued to encourage political and economic development in Azerbaijan through its training and exchange programs:

- USIA's Bradley Secondary School Exchange Program sent 35 Azerbaijani teenagers to live with American families and attend high school for one year.
- USIA's International Visitor (IV) Program sent 13 Azerbaijani businesspeople to the United States.
- Nine Azerbaijanis received USIA FREEDOM Support Grants and Muskie Fellowships to pursue graduate degree and non-degree programs in the United States.
- USAID provided \$113,000 to the Academy for Educational Development (AED) for training programs. A total of 135 people have participated in courses and seminars for human rights activists, small-business leaders, private-sector bankers and women's NGOs.
- Eight private farmers received USDA Cochran Fellowships for short-term training in the United States.

Democracy and Governance Programs

Due to Section 907 restrictions, U.S. Government democracy and governance programs had a limited pool of candidates from whom to select participants. Two American organizations, the National Democratic Institute (NDI) and the Initiative for Social Action and Renewal in Eurasia (ISAR), executed democracy and governance projects in Azerbaijan in FY 1997. ISAR received \$163,000 from USAID to implement a project on training and development support for NGOs. Using funds from the National Endowment for Democracy (NED), NDI supported the development of political parties and human rights organizations. USAID provided \$320,000 to Internews to implement independent information exchange projects in cooperation with non-governmental television stations throughout Azerbaijan.

Preview of FY 1998 Programs

Since Section 907 remains in effect for FY 1998, U.S. Government assistance will remain heavily oriented towards humanitarian aid. These programs will continue working to reduce human suffering while starting some small development projects as well. The U.S. Government will continue to cooperate with the United Nations and other international organizations in implementing humanitarian aid programs. The FY 1998 Foreign Operations Export Financing and Related Program Appropriations Bill stated that Section 907 restrictions are not applicable to "activities to support democracy." As a result, the U.S. Government will be able to expand its democracy programs in Azerbaijan in FY 1998.

BELARUS

Political and Economic Overview

In FY 1997 Belarus moved closer towards establishing a dictatorship and a Soviet-style command economy. In November 1996, President Lukashenko engineered a constitutional referendum which effectively eliminated checks on the executive branch and was therefore deemed illegal by the then-Constitutional Court and considered to be illegitimate by the United States and other members of the international community. Based on the results of the severely flawed referendum, Lukashenko abolished the legitimate parliament and introduced a new legislature that is beholden to the president. A new constitution (which gives the president the power to appoint and dismiss all judges) and a June 1997 presidential decree governing the legal profession effectively eliminated any pretense of an independent judiciary in Belarus. The government's human rights record once again worsened significantly, particularly with regard to respect for freedoms of speech and assembly. Meanwhile, the executive branch continued to block market-based economic reforms and instead introduced greater administrative controls.

Overview of U.S. Government Assistance

In FY 1997, the U.S. Government provided approximately \$19.5 million in assistance to Belarus, including \$10.5 million in privately donated, U.S. Government-transported humanitarian commodities. Following the November 1996 referendum, the U.S. Government introduced a policy of "selective engagement" toward Belarus, a key tenet of which is that no new U.S. Government assistance will be directed to the Government of Belarus and, whenever possible, assistance will be channeled through non-governmental organizations, particularly those elements of Belarusian society that, despite the current regime, are trying to introduce democratic and free-market principles. Although still modest, U.S. Government assistance to Belarus increased slightly in FY 1997, with the aim of building respect for the rule of law and democracy, strengthening NGOs and independent media, and encouraging small-scale privatization—the one area in which the Government of Belarus has demonstrated some progress toward market reform. In FY 1997, as a result of the Belarusian Government's poor human-rights record, Belarus was decertified under the Defense Department's Cooperative Threat Reduction (CTR) or "Nunn-Lugar" Program, resulting in the suspension of \$40 million in planned assistance.

Security Programs

Through **Cooperative Threat Reduction (CTR) programs**, the U.S. Government helped eliminate and dismantle Belarusian weapons of mass destruction, and provided emergency response equipment and training, and export control assistance. Among FY 1997 highlights of the CTR program in Belarus were the completion and transfer to the Ministry of Defense of a housing project for former military officers under a defense conversion project in Grodno, and the transfer of soil remediation equipment to Belarus for the environmental restoration of former military bases. Belarus's export control program also benefited from U.S. Government assistance, receiving updated computer technology to enhance the country's capability to monitor and prevent the transport of nuclear materials beyond its borders.

However, in February 1997, the President of the United States decertified Belarus due to its poor human-rights record, resulting in a suspension of \$40 million in unobligated funds for CTR assistance to Belarus. Although projects with funds already obligated were permitted to continue for the remainder of the fiscal year, some of those also encountered difficulties. The most serious obstacles to implementing CTR programs were imposed by the Belarusian Government. As in FY 1996, the Government of Belarus continued to deny U.S. contractors access to installations so that they could provide agreed-upon assistance for the elimination of SS-25 fixed structure foundations. The Belarusian Government also stopped funding an environmental restoration project in Postavy, as a result of which soil remediation equipment given to the Belarusian Government under the CTR Program has stood idle since July 1997.

Economic Development Programs

Since mid-1993, USAID has been funding the **International Finance Corporation's (IFC) small-scale privatization program** in Belarus. In FY 1997, IFC provided a full range of consulting, technical and legal services to 16 cities in Belarus and began negotiations to begin work in several other cities. As of December 1, 1997, IFC-assisted auctions had resulted in the transfer of 550 small businesses (restaurants, shops, laundries,

etc.) to private hands. Of the 461 businesses, eight were sold to foreigners and 33 to workers' collectives. The auctions generated over \$12.1 million in revenue, and created thousands of private-sector jobs. The newly privatized businesses proved to be successful, thus encouraging competitive practices on the part of neighboring state-owned businesses. To assist in the sale of built-in premises of small businesses, IFC has been involved in the design and implementation of a regulatory framework to create privately owned and managed condominiums in municipal buildings. As a result, eight cities in Belarus adopted condominium regulations.

Volunteers in Overseas Cooperative Assistance (VOCA), a USAID grantee, brought 14 U.S. private farmers to Belarus in FY 1997 to work with their Belarusian counterparts on a volunteer basis. As a result, Belarus-based NGOs increased their networks of potential U.S. partners, the newsletter *Farming in Belarus* was created, a new farmer training project was developed, and the volunteers' recommendations will be included in a national land reform concept. Agricultural Cooperative Development International (ACDI)/VOCA placed a permanent U.S. country representative in Belarus in early 1998.

U.S. Department of the Treasury: The Treasury Department's resident government debt advisor in Belarus was withdrawn in November 1996, after one year of activity, due to the U.S. Government-wide reduction in assistance to the Government of Belarus. Despite the general retreat from economic reform by the Belarusian Government, the Belarusian National Bank nearly achieved its 1996 issuance target of \$300 million.

Democracy Programs

In FY 1997, our embassy's **"Democracy Fund" Small Grants Program**, which is administered by USIA, became a critical element of the overall U.S. Government strategy to help develop a civil society based on the rule of law in Belarus. The role of the Democracy Fund took on added importance in the wake of the suspension of the Soros Foundation's grant-making activities in Belarus due to interference by the Belarusian Government. In FY 1997, our embassy's Democracy Fund awarded 13 grants to support independent media, democratically oriented youth and women's groups, and human rights NGOs. For example, a Democracy Fund grant was awarded to the Belarusian NGO "Legislative Initiative" for a project to analyze the culture of law in Belarus, with the goal of increasing the awareness of and participation in the legal sphere. One of the NGO's larger projects was to draft documentation of the laws implemented by direct presidential order that were deemed unconstitutional by the Constitutional Court. The NGO also did considerable work in legislation on independent media.

American Bar Association – Central and East European Law Initiative (ABA/CEELI): In FY 1997, the USAID-funded ABA/CEELI Rule of Law Program organized a series of conferences and workshops on criminal jury trials, human rights, commercial arbitration, border issues and other topics. In late November 1996, ABA/CEELI sponsored a three-day conference on the theory and practice of criminal jury trials, which was very well received by the Belarusian legal community. As follow up to this successful program, ABA/CEELI initiated Project 2000, which will provide training to the Belarusian legal community on the U.S. and Russian jury trial systems and in advocacy and other skills to prepare the Belarusian legal community for the introduction of a jury trial system in Belarus by the year 2000. ABA/CEELI also helped reform-minded Belarusian lawyers, led by former Constitutional Court Justice Aleksandr Vashkevich, establish the Center for Constitutionalism and Comparative Legal Studies in Belarus. ABA/CEELI provided funding for the center's first year of operations. ABA/CEELI continued to support the nascent Belarusian Law Students' Association and its branches at law schools in the regional centers. ABA/CEELI also sponsored the extended visit of an American law professor as part of its project to introduce clinical legal education at the European Humanities University in Minsk and at Belarus State University.

IREX ProMedia Program: USAID provided support for the development of independent media in Belarus through the ProMedia Program implemented by the International Research and Exchanges Board (IREX). IREX officially began operating in Belarus in summer 1997, providing professional journalistic and management assistance to local and national media throughout the country. The program's primary goal is to increase independent media's ability to inform the citizens of Belarus so that they may more fully participate in economic and political decision-making. ProMedia sent 12 editors from independent local Belarusian newspapers (all based outside of the capital) to counterpart newspapers in Poland for one-week internships, followed by a three-day seminar that covered critical areas of newspaper operations. Five Belarusian journalists from local independent television stations attended an international broadcasting conference and a week-long training program in Slovakia. In October, ProMedia brought three U.S. newspaper executives to Belarus for a two-week management training and consulting project. ProMedia has also sent leaders of the Belarusian Journalists'

Association to Croatia to observe their counterparts' operations. In addition, IREX helped disseminate information about media law issues to journalists and lawyers and sponsored an U.S. lawyer who provided training to Belarusian media lawyers. ProMedia also ran regular courses in computer and Internet skills for Belarusian journalists and conducted two courses in the fundamentals of journalism for working and prospective reporters.

As part of its effort to help develop an open, civil society in Belarus, USAID also began funding the **Counterpart Alliance for Partnership (CAP) NGO Development Program**. Locally hired CAP trainers conducted seminars for 45 Belarusian NGOs in issues such as project development, social marketing, working with mass media, community development, and team building. CAP also provided seed grants to a variety of NGOs engaged in providing social services, developing public policy, and promoting legislative reform.

Training and Exchange Programs

In FY 1997, USIA-sponsored exchange programs were also a key component in the U.S. Government's strategy to assist those Belarusians who are working to introduce democratic and economic reforms. In FY 1997, USIA began identifying small-business entrepreneurs and NGO leaders from five Belarusian cities to participate in its Community Connections Program, which will send these individuals to the United States to meet their American counterparts and to help build a network of reform-minded Belarusian leaders. USIA also sent six Belarusian women to the United States for three weeks to meet with their counterparts in areas such as trade unions, media and law. USIA funded the participation of Belarusians in seminars in Warsaw on teacher education and in Salzburg on U.S. law and legal institutions. In addition, USIA brought Belarusian high school students and teachers to the United States for yearlong exchanges, as well as undergraduate and graduate students on fellowships. USIA also sent two American experts to Belarus to lead seminars on human rights and the U.S. electoral system.

The Eurasia Foundation

In FY 1997 the Eurasia Foundation used U.S. Government funding to award 34 grants totaling \$573,101 in areas such as NGO development, independent media, rule of law, business development, business education and management training, economic education and research, and electronic communications. The Foundation's grants focused first and foremost on supporting grassroots initiatives in NGO development (11 grants), independent media (5 grants) and rule of law (4 grants), since these activities are considered to contribute most to the development of a civil society in Belarus. For example, Eurasia provided a grant to the Foundation for the Support of Independent Press with the aim of establishing an alternative distribution system for independent print media in the regions of Belarus, which currently rely on the state distribution network. Eurasia also provided four grants under the Belarusian-Ukrainian Cooperation and Exchange Program, which aims at promoting and strengthening relationships between Belarusian and Ukrainian individuals and organizations that are working for democratic and economic reforms in their respective countries. Also in FY 1997, the Eurasia Foundation's office in Washington, D.C. awarded four grants totaling \$366,645 to U.S. organizations carrying out projects with Belarusian partners.

Health Programs

In FY 1997, USAID continued to fund the American International Health Alliance (AIHA) Hospital Partnership Program. Under this program, the Magee Women's Hospital in Pittsburgh continued to cooperate with four Minsk-based medical institutions to improve the quality of health care in Belarus. Among the highlights of AIHA's program in FY 1997 was the development of a women's wellness clinic at Minsk Maternity Hospital Number 2, one of Magee's partners. The clinic will provide prenatal care and infant care classes, as well as family planning services and routine women's health care. Though the clinic is not expected to open until FY 1998, construction work was completed in FY 1997 with the help of the Belarusian Ministry of Health. The partnership also set up two computer labs at the Minsk Medical Institute and the Radiation Medicine and Endocrinology Institute, providing Internet connectivity to these institutions. Minsk Medical Institute administrators also began working with their Pittsburgh colleagues to redesign the school's curriculum and teaching methodologies. The fourth Belarusian partner, Children's Hospital No.4, launched a program to upgrade the skills of nursing staff and increase their role in patient care.

Social Sector and Humanitarian Assistance Programs

In FY 1997, the U.S. Government delivered over \$10 million in humanitarian assistance to Belarus, most of which was donated by U.S. citizens and private voluntary organizations (PVOs) and directed to victims of the Chernobyl accident. USAID continued to fund the Counterpart Humanitarian Assistance Program (CHAP), which locates excess Defense Department property at U.S. military bases which are closing down and delivers it to hospitals, orphanages and social service-oriented NGOs. In addition, the Office of the Coordinator of U.S. Assistance to the NIS continued to fund the delivery of privately donated humanitarian assistance to Belarus.

GEORGIA

Political and Economic Overview

Political and economic reform continued to move forward significantly in Georgia in FY 1997. The government continued to control inflation and the national currency (the lari) remained stable. International Monetary Fund (IMF) and World Bank targets were substantially met and, according to estimates, economic growth once again exceeded ten percent. The youthful and progressive leadership in the Georgian Parliament continued its efforts to enact the body of legislation necessary to consolidate democratic government and a free-market economy. President Shevardnadze declared that the reforms necessary to stabilize Georgia and revitalize its economy were almost complete and were irreversible, and that Georgia was now entering a second stage of reform—to create a democratic, pluralistic and prosperous state. This second stage will include the creation of an independent judiciary, revamped local government structures, and extensive privatization, including in the transportation and energy sectors, where entrenched interests remain obstacles to reform.

In FY 1997, direct foreign investment continued to play only a modest role in Georgia's economic activity, but many foreign companies were exploring possible investments. The list of U.S. companies active in Georgia grew over the past year, as did the number of visiting businesspeople. Georgia's position as a transit gateway for Caspian energy resources and for the exports of Central Asia was the source of much of the interest on the part of foreign investors. The single most important foreign business venture continued to be the construction of a crude oil pipeline across Georgia from Baku by the Azerbaijan International Operating Company (AIOC), a consortium of major oil companies. The project, which is known as the "Early" Oil Western Route Pipeline, is to be completed in late 1998. Georgia is engaged in negotiations with AIOC on the possible construction of a main export pipeline. In addition, several companies are discussing possible natural gas pipeline projects across Georgia.

Nevertheless, serious problems remain. Major corruption continued to tarnish the Georgian people's view of the accomplishments of their government in FY 1997. The government's inability to deal successfully with its energy problems and the resulting prospect of another cold, dark winter undercut the sense of public optimism brought about by Georgia's economic growth. The government's decision to appoint, rather than elect (as it had pledged earlier), all district governors and the mayors of Georgia's six largest cities, was widely criticized, including by our embassy.

Overview of U.S. Government Assistance

In FY 1997, U.S. Government-funded assistance programs actively supported Georgia's democratic and economic reforms. Although humanitarian programs continued to be an important component of the U.S. Government assistance effort in Georgia, the primary focus of this effort was in the areas of democracy and governance (including judicial reform and development of independent media) and economic restructuring. Due to continued problems, including corruption and lack of transparency in the energy sector, the U.S. Government decided not to provide winter fuel aid which had been requested by the Georgian Government. However, the U.S. Government began working on conditionalities that might allow the program to continue.

In FY 1997, the U.S. Government provided approximately \$108.1 million in assistance to Georgia, including \$55.8 million in privately donated, U.S. Government-transported humanitarian commodities. Of this total amount, \$25 million was technical assistance and \$68.2 million was humanitarian aid. The latter figure includes \$10.5 million in USDA Food for Progress commodities plus transport, distributed by U.S. private voluntary organizations (PVOs). In addition, \$20 million was made available for USDA's Food for Progress Government-to-Government Program.

Democracy and Governance Programs

In FY 1997, the impact of USAID-funded activities in the area of democracy-building was reflected in the development of strong, independent non-governmental organizations (NGOs), a more professional independent television network, progress on the local government front, and legal and judiciary reform. Our embassy rated all of these programs as highly effective.

The **Initiative for Social Action and Renewal in Eurasia (ISAR)**, a USAID grantee, developed its local office in Georgia to the point where it will function on its own as a provider of technical assistance and training of Georgian NGOs. ISAR's reach is nationwide; for example, ISAR recently began providing NGO development assistance to indigenous NGOs in the separatist area of South Ossetia. ISAR also stimulated regular dialogue between the reformist chairman of the Georgian parliament and Georgian NGOs.

The **American Bar Association's (ABA)** ongoing work with the Georgian Young Lawyers' Association, a Georgian NGO, led to the strengthening of this independent lawyers' association—the only one in Georgia which has an active membership in many secondary cities. The ABA's continuing education programs included legal development, legal ethics, and management of legal practices.

The USAID-funded **National Democratic Institute's (NDI)** creation in 1995 of the Georgian NGO, the International Society for Free Elections (ISFE), continued to bear fruit in FY 1997. ISFE has developed local chapters in many regions of Georgia and has organized town council meetings in 20 towns. NDI provided extensive support to Georgia in the development of its newly passed law on local government, which calls for the election of town councils nationwide and the election of mayors in all but the six largest cities

USAID-funded work in the area of judicial reform stimulated excellent cooperation among the United States, European countries, and the International Bank for Reconstruction and Development (IBRD) in a joint effort to speed up judicial reforms in Georgia. The IBRD moved up the timeframe for its new \$15 million judicial reform project in large part because of the work done by the USAID-funded advisors. Tragically, however, USAID's senior U.S. consultant for this program was killed in October in an auto accident in Georgia and his senior associate was seriously injured.

USAID grantee **Internews** continued to work with 15 independent television stations to produce the weekly news program "Kvira," which is broadcast nationwide. As a result of this program, which is also supported by USIA, Georgian journalists, editors, and producers have learned to develop stories and get news on the air. In August, one of the stations, Rustavi II, interviewed visiting U.S. Representative Sonny Callahan and his delegation. The embassy-based Democracy Fund (see below) awarded a grant to Internews in support of an eight-month training program for television managers and producers, which led to noticeable improvement in their professionalism. (see also Training and Exchange Programs below)

The embassy-based **Democracy Fund** administered by USIA awarded small grants to the following organizations:

- to the United Nations Organization of Georgia, an indigenous NGO, for a nine-month civic education program for university students and NGO representatives;
- to Tbilisi State University, for a teacher training project pairing Georgian teachers of English with U.S. teachers of English as a second language, over a period of six weeks;
- to the NGO Gaia to cover the start-up costs of a civic education center which will train teachers in civic education;
- to the regional NGO Shida Kartli for the development an informational program on democratic institutions (especially local government institutions), in the region of Khashuri, which was followed up by a six-month project designed to produce journals and a series of lectures on democratic institutions;
- to the Georgian Association of Atlantic Collaboration to carry out a series of activities focused on military-civilian relations;
- and to the independent radio station Green Wave to expand its capacity to broadcast news and informational programming.

Training and Exchange Programs

Six Georgian parliamentarians traveled to the United States under USIA's International Visitor (IV) Program to study federalism. USIA also sent to the United States two members of parliament from the Budget and Finance Committee, a budget adviser from the Office of the President, and an official from the Ministry of Economy for a program on government and financial structures in a federal system. Six representatives of Georgian political parties traveled to the United States under USIA's IV Program to study party politics in a federal system, and three Georgians traveled to the United States to participate in programs on environmental education, teaching English as a second language, and civic education, respectively. Also under USIA's IV Program, four journalists traveled to the United States for a program on investigative journalism, and the presidents of two independent television broadcasting companies traveled to the United States for a program on television broadcast production. USIA sent the chairman of a parliamentary subcommittee on media on an individual IV program to study the relationship between government and media in the United States.

In the area of business training, USIA sent six Georgians on an IV program on the mutually beneficial relations between U.S. NGOs and the business community, as well as four educators on a program on business education in the United States. USIA also sponsored a Fulbright professor from San Jose State University who conducted consultations with business education faculties to advise on program curricula consistent with contemporary economic thinking. A second U.S. professor conducted a six-week course on economics in cooperation with three Georgian academic institutions that specialize in business and economics.

USIA also brought U.S. speakers to Georgia who addressed women's leadership and advocacy issues, as well as democratization and the business side of journalism. USIA sponsored the visit of a former president and executive director of NC Equity, North Carolina's public policy and advocacy center for women, who held a seven-day women's leadership and advocacy seminar at the Institute for Public Administration. The seminar, which was jointly sponsored by USIA, the Eurasia Foundation, and the Open Society Institute/Soros Foundation, was attended by 40 female professionals from local and international NGOs and from the Women's Caucus of the Georgian Parliament. USIA also sponsored a U.S. speaker on the topic of democratization and political reform, who addressed an audience of students, NGO leaders, and university administrators with a series of lectures addressing core issues of democracy, such as the conflict between freedom and order and the conflict between freedom and equality. In addition, USIA brought speakers to Georgia who addressed newspaper management and advertising, as well as business news and reporting. The U.S. speakers, who were professional journalists from Missouri and Wisconsin, reported a high degree of receptivity and immediate improvements in business management and the organization of newsgathering and presentation on the part of Georgian newspapers.

Trade and Investment Programs

The **U.S. Trade and Development Agency (TDA)** funded an assessment mission to study the Supsa Region for potential projects under the Eurasian Transport Corridor initiative announced by Georgian President Shevardnadze during his July 1997 visit to the United States. TDA is also funding a \$546,000 feasibility study on the Supsa refinery project.

Energy and Environmental Programs

Long-term technical assistance provided by USAID-funded Hagler Bailly advisors helped lead to the passage of a law on the power sector. An important feature of the law is the establishment of an independent regulatory commission. Under the law, policy functions remain with the Ministry of Energy, while the commission is responsible for the oversight of the sector on a commercial basis. However, under-investment and inefficiency in the country's power sector remained a major impediment to Georgia's economic development in FY 1997, and there continued to be no reliable and constant electrical power supply available for either commercial or residential use. There also remained a considerable lack of transparency in Georgia's power sector. Georgia agreed to discuss its energy sector problems at the December 1997 International Bank for Reconstruction and Development (IBRD)/International Monetary Fund (IMF) consultative group meeting in Paris, which brought together Georgia's donors.

In FY 1997, the U.S. Environmental Protection Agency (EPA) provided initial support for the creation of a Regional Environmental Center in Tbilisi. The Center, which is slated to open in 1998, will facilitate public participation in environmental decision-making and will help promote public awareness of environmental issues. Similar centers are being started in Russia, Moldova and Ukraine.

Social Sector Restructuring and Humanitarian Assistance

In late FY 1997, the **Centers for Disease Control and Prevention (CDC)** resumed work in Georgia, a country now struggling with at least four epidemics, including rabies and diphtheria. CDC also focused on better identification of the causes of Georgia's increasingly higher rates of infant and maternal mortality.

USAID funding provided through "Save the Children" Federation and the Fund for Democracy and Development for the successful pilot phase of **Georgia's Social Development Investment Fund (GSIF)** led to a commitment by the World Bank to provide up to \$20 million in International Development Agency funding. Japan is also contributing to the fund. Formed in August 1996, GSIF is charged with supporting the rehabilitation of small social infrastructure facilities in the less developed regions of the country. GSIF projects, which cost an average of \$50,000, have included the repair of orphanages, schools, clinics, water supply lines and sewage systems.

In FY 1997, two air shipments of U.S. fire fighting equipment, including used fire trucks, funded under the Denton Amendment made available high-cost items to a country whose fire fighting abilities were very deficient.

USAID's funding, through UNICEF, of vaccines for Georgia's **childhood immunization program** led to increased immunization coverage rates of 75 percent. Before this enhanced effort, the rate had been an unacceptably low 48 percent.

Economic Restructuring Programs

With the support of USAID grantee Chemonics, the **Center for Policy and Economic Reform (CEPAR)** worked successfully with the Georgian Government to move forward on its accession to the World Trade Organization (WTO). USAID-funded experts helped organize the Georgian Government's WTO accession effort, and USAID funded the travel of Georgians to Geneva for working sessions that helped expedite the process.

The USAID-funded **Barents Group's program for training commercial bankers** won high acclaim in Georgia in FY 1997. The European Bank for Reconstruction and Development (EBRD) informed USAID that the newly trained Georgian bankers demonstrated a marked improvement in their ability to manage the newly approved EBRD credit lines extended through several commercial banks in Georgia.

Preliminary assistance efforts in accounting reform funded by the **Eurasia Foundation** and the **International Executive Service Corps (IESC)** enabled USAID's major new market reform program, launched at the end of FY 1997, to identify targets of opportunity for quicker impact in the area of accounting reform.

U.S. Department of the Treasury: Treasury Department advisors working with their counterparts in the Ministry of Finance on the development of the Georgian Government's FY 1998 budget contributed to Georgia's first efforts to develop a program budget. These efforts were directed at the country's health and social sectors, which are currently experiencing serious funding problems. A resident budget advisor completed a one-year

residency at the Finance Ministry in August 1997, during which he introduced his Georgian counterparts to Western-style budgeting standards and developed a new budget classification scheme. His successor is working to improve both the Ministry's macroeconomic forecasting capacities and its budget formulation and execution processes. A resident advisor to the State Tax Administration began his assignment in January 1998, and will be providing assistance in direct taxation issues, such as developing an internal audit function and audit procedures, and examination techniques (including indirect methods). In addition, the advisor will be helping the Georgians to develop an in-house training program to be taught by State Tax Service officials. A resident government-debt advisor arrived in September 1997 for a two-year assignment to help Georgia establish its first-ever government securities market. He will help the Ministry of Finance and National Bank of Georgia to establish auction procedures for treasury bills, including the establishment of a safe and functional depository/registry. He also will assist in developing the necessary legal and regulatory framework for a successful primary and secondary market in domestic government securities.

Security Programs

Georgia is an active member of the **International Science and Technology Center (ISTC)** in Moscow, and a number of former Soviet weapons scientists in Georgia are working on ISTC projects. Projects have been funded with scientists at the Georgian Technical University, the Institute of Cybernetics, the Institute of Stable Isotopes, the Republican Center of Environmental Monitoring, the State Institute of Economic Relations and Tbilisi State University.

In FY 1997, the U.S. Government initiated assistance to help Georgia enhance its **export control** capabilities. Under the Defense Department's **Cooperative Threat Reduction Program**, the U.S. Government is providing two patrol boats to facilitate Georgia's border security and help prevent the proliferation of weapons of mass destruction and other trafficking. For FY 1998, the U.S. Government is developing an expanded border-security program to address Georgia's request and requirements for additional assistance in this area.

Preview of FY 1998 Programs

In FY 1998, U.S. Government assistance to Georgia will feature an increased emphasis on energy-sector reform, judicial training and reform, anti-corruption activities, capital market development, privatization, education, training and exchanges. There will also be a focus on building community-level capacity and services, with greater recipient participation. In addition, the U.S. Government will seek to promote increased regional cooperation.

To address Georgia's continuing humanitarian needs, support will be given to international organizations, and to local NGOs and community groups for the purpose of developing and strengthening grassroots structures. In addition, a new congressional mandate will extend humanitarian response mechanisms into areas affected by regional conflict, such as Abkhazia. However, the trend to reduce humanitarian assistance, especially commodities, for the greater population will continue in FY 1998. Development and technical assistance will increase, especially in the areas of democracy and governance, economic and energy reform, agriculture, marketing assistance, private-sector development, assistance to small and medium enterprises and support of independent media.

The FY 1998 Conference Report for the Foreign Operations Appropriations Act instructed that a "high priority" be given to "training and infrastructure support for customs and border control in Georgia. In response to the language, the U.S. Government will program up to \$7 million to help Georgia expand its border enforcement capabilities.

KAZAKHSTAN

Political and Economic Overview

FY 1997 was another year of political stability and modest economic growth for Kazakhstan. The country's constitution, adopted in 1995 through a referendum marred by irregularities, concentrates power in the president, permitting him to legislate by decree and thus to dominate over the legislative and judicial branches. Moreover, the constitution cannot be changed or amended without the president's consent. As a result, President Nazarbayev continued to be the clearly dominant political figure in Kazakhstan in FY 1997. Nevertheless, parliamentary deputies used their right to introduce legislation and drafted nineteen bills for consideration during the parliament's first full session. In FY 1997, the judiciary remained under the control of the president and the executive branch, and the judicial system was being restructured to bring it more into line with the constitution. It should be noted that the lack of an independent judiciary in Kazakhstan made it difficult to deal with the problem of corruption, which continued to have an adverse impact on Kazakhstan's political and economic development. Kazakhstan nevertheless had in place several important elements of participatory democracy. Human rights were generally respected, and citizens enjoyed basic freedoms, including those of religion and speech, although freedom of assembly was at times restricted in FY 1997. Some organizers of an unsanctioned demonstration protesting the country's deteriorating economic conditions and the non-payment of wages and pensions were arrested and fined or imprisoned.

Kazakhstan made significant progress in its transition to a free-market economy in FY 1997. Macroeconomic performance was solid, with inflation for 1997 expected to average less than one percent per month—a substantial improvement over previous years—and expected economic growth of approximately one to two percent of GDP. During this second consecutive year of positive real growth, Kazakhstan's sound short-term macroeconomic performance continued to earn support from international financial institutions, including the International Monetary Fund (IMF) and World Bank, as well as from international rating agencies in the context of recent highly successful Eurobond issues. At the same time, however, the Kazakhstani Government must tackle key fiscal restructuring issues if it is to protect the macro-stabilization progress that has been made thus far. In particular, revenue intake must be improved dramatically through a complete overhaul of the tax administration system. In addition, inter-governmental finance reforms must be implemented which will stabilize the revenue flows to regional and local governments, and improve the targeting of fiscal transfers to better meet the fiscal needs of the various regional and local governments. Finally, Kazakhstan's budget planning system must be rationalized so that social expenditure programs are more closely linked to improvements in the well-being of the beneficiary population.

With USAID support, the Kazakhstani Government constructed an ambitious legal reform agenda for developing the regulatory framework needed to clarify property ownership and transfer rights and the rights of parties to economic transactions. The government also continued to move forward aggressively in its efforts to become a member of the World Trade Organization (WTO). In July 1996 the government submitted its memorandum of foreign trade regime and since then, progress towards WTO accession has been swift, with final accession now expected in late 1998 or early 1999.

The privatization of large industrial enterprises, particularly in the power-generation and oil and gas sectors, continued in 1997. However, implementation of the Kazakhstani Government's blue-chip privatization program (the privatization of minority shares of a group of large-scale industrial enterprises through the country's nascent stock market) must be accelerated. Agricultural reforms continued to lag in 1997. The 1997 grain harvest was expected to be about 12 million tons (8 million in wheat), which is poor by Soviet-era standards, but a slight improvement over the harvest of 1996. Reforms in the agricultural finance system (including agricultural bankruptcy legislation, amendments to the mortgage law, and a cessation of *oblast*-level (regional) interference with agricultural trade) must be carried out if agricultural performance is to improve significantly.

Overview of U.S. Government Assistance

In FY 1997, the United States' political and economic relationship with Kazakhstan continued to broaden and deepen, compared to its earlier singular focus on nonproliferation issues after Kazakhstan gained its independence. Issues of vital U.S. interest—access to energy resources, a stable investment climate, economic reform, and democratic development—were at the heart of our bilateral relationship. The Kazakhstani

Government and private sector sought U.S. help in attracting additional foreign investment. U.S. investment, notably in Kazakhstan's energy sector, increased by 30 percent in FY 1997.

In FY 1997, the U.S. Government provided approximately \$65.5 million in assistance to Kazakhstan, including \$25.3 million in privately donated, U.S. Government-transported humanitarian commodities. The primary foci of U.S. Government assistance to Kazakhstan continued to be economic reform, banking system restructuring, stabilization of the country's investment climate, strengthening of democratic institutions, energy and environmental issues, health care reform, housing sector reform, and humanitarian assistance in the broadest sense. The U.S. Government continued to provide training in a wide variety of areas in conjunction with ongoing development activities, with the goal of strengthening the skills of the individuals who will be helping Kazakhstan's private and public sectors modernize their institutional capacity and systems. As of October 1997, the U.S. Government had provided a total of over \$250 million in technical assistance under the FREEDOM Support Act to promote economic reform, social transition, energy and environmental issues and the development of a democratic society in Kazakhstan.

Economic Development, Trade and Investment Programs

As part of its technical assistance to promote trade and investment, USAID helped improve and streamline customs procedures and administration, and reduce disincentives for trade and investment generally. In the area of trade defense laws, for example, Kazakhstan has shown considerable speed in enacting legislation on countervailing duties, antidumping, and safeguards. In the area of intellectual property rights, Kazakhstan is in the process of enacting laws that will bring the country's legislation into conformity with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In the area of foreign investment law, USAID advisors were extensively involved in providing assistance to the Kazakhstani Government, and major results were achieved for U.S. companies with respect to licensing: licenses are now unambiguously subject to international arbitration. Also with USAID assistance, the Government of Kazakhstan adopted a comprehensive set of international accounting standards that will help rationalize both financial and non-financial enterprises and will significantly increase the transparency of financial information for investors.

Privatization and economic reform continued at a rapid pace in Kazakhstan in FY 1997 with the help of **USAID's mass privatization project**, which supported the highly successful final cash auction stage of mass privatization. As part of its support in this area, USAID established an award-winning homepage on the World Wide Web titled *The Securities Market and Privatization in Kazakhstan*, which lists all of the country's joint stock companies, gives detailed information on companies coming up for sale, and provides copies of a large number of legal documents related to commercial laws in Kazakhstan. The homepage allows worldwide access to securities market and foreign trade information, thus promoting Kazakhstan's capital market. USAID also helped the Kazakhstani Government develop the regulatory and technical infrastructure for the operation of a competitive securities market. Although the Government of Kazakhstan remained an equity partner in a wide variety of enterprises in FY 1997, state-held shares in hundreds of enterprises have been reduced or eliminated. As of June 1997, the bulk of the petroleum sector had been privatized. Rapid privatization has also occurred in Kazakhstan's electric power sector. Approximately 80 percent of Kazakhstan's generating plants were sold to private investors between early 1996 and June 1997.

USAID played a leading role in supporting the radical **pension reform** program that was adopted by the Government of Kazakhstan in 1997 and will be implemented in 1998. This program, which will replace the current pay-as-you-go public system with a multi-tiered system having a major private component, will both protect the savings of pension contributors and contribute significantly to the long-term development of the securities market in Kazakhstan. USAID also provided technical assistance and training programs for tax system reform, adoption of international accounting standards, private sector development, banking, and telecommunications.

With U.S. Government support, the **Central Asian - American Enterprise Fund (CAAEF)** has provided over \$18 million in loans and support for small and medium-sized private enterprises in Kazakhstan. To date, U.S. companies have invested more than \$1.5 billion in the development of Kazakhstan's economy, primarily in the oil, gas, and power generation sectors. U.S. foreign direct investment accounts for approximately 45 percent of all foreign direct investment in Kazakhstan.

U.S. Department of the Treasury: A resident government-debt advisor assisted the Ministry of Finance in developing a government debt market. With Treasury Department guidance, Kazakhstan obtained S&P ratings

of "BB-" and issued its first Eurobond in December 1996. Despite the increase in issue size from \$100 million to \$200 million, the issue was still greatly oversubscribed. Resident and intermittent advisors also helped the Ministry of Finance to prepare a draft law on state debt and state guarantees. In FY 1998, the Treasury Department intends to place a new resident advisor to assist the Ministry of Finance with further development of the government securities market, as well as to provide continuing assistance with Eurobond issues. However, plans are uncertain due to chaotic schedule for transferring the Government of Kazakhstan the country's new capital, Akmola.

Training and Exchange Programs

USAID: By the end of FY 1997, more than 1,100 Kazakhstanis had participated in USAID training programs. As the result of an increased emphasis on female participation, the percentage of female participants jumped from 40 percent in FY 1995-96 to over 55 percent. Of the 1,100 total participants, 519 participated in U.S.-based training programs. Reflecting a more targeted use of cost-effective in-country training, approximately 550 participants were trained in their home region. An additional 26 participants were trained in third countries whose advancements in technical areas provided appropriate learning experiences for reform-minded Kazakhstanis. These USAID training programs positively reinforced ongoing technical assistance efforts in economic restructuring, democratization, energy and environment, and social transition. Many USAID trainees have already moved into positions of increased responsibility in the public sector. In the private sector, trainees have started new businesses or made significant improvements in existing enterprises.

USIA: In FY 1997, USIA organized two public administration seminars in Kazakhstan involving over 80 local and federal officials, 18 of whom subsequently attended a three-week training course on public administration in the United States. USIA also sent 11 Kazakhstani Fulbright Scholars to the United States, as well as an additional 39 Kazakhstanis on programs in such areas as media, civic education, legislative processes and procedures, and political party development. A total of 75 Kazakhstanis participated in academic exchange programs at the high school, undergraduate and graduate level.

Social Sector Programs

In FY 1997, USAID's technical assistance to Kazakhstan's social sector focused on housing reform and health reform. **USAID's housing sector reform project** concluded at the end of FY 1997, having achieved significant results in the areas of condominium formation, housing allowances and competitive contracting for services. The nationally publicized condominium formation program resulted in the formation of over 4,000 condominium associations and significantly increased demand for private services such as trash collection and building maintenance. These condominium associations organized themselves into 22 regional associations that subsequently formed a national association of homeowner cooperatives. At a national conference sponsored by USAID, former Prime Minister Kazhegeldin dubbed condominiums "the first example of local self-government in Kazakhstan." Similarly, Kazakhstan's USAID-supported nationwide housing allowance program reached over 174,000 families through 110 housing allowance centers located throughout the country which operate a means-tested utility subsidy program, resulting in improved services to citizens and significant cost recovery by municipalities.

Significant results were also achieved by **USAID's health sector reform program**. Kazakhstan's Soviet-era health care system has deteriorated drastically since the country gained independence in 1991, leading to a dramatic decline in the health of the population. With decreasing financial resources available to the health sector, the Government of Kazakhstan faces the dual challenge of reforming the health system to make it financially viable and to build its capacity to provide broad access to quality health care. USAID was the first and primary donor to assist the Government of Kazakhstan with this enormous undertaking. With USAID technical assistance, a case-based hospital payment system was introduced in pilot locations, resulting in a twenty-percent reduction in the average length of hospital stays. The savings due to the decreased length of stay can be directed to primary health care facilities, such as family group practices, being established with USAID assistance. A new cost-accounting data analysis system introduced by USAID-funded advisors also resulted in payment to health facilities on a per-case rather than per-bed basis, an innovation which improved the quality of care and resulted in budget savings at the national level. In FY 1998, USAID will expand the demonstration projects to cover a larger population base in two newly created *oblasts* (regions). Most importantly, these efforts will be expanded to other *oblasts* under a \$30 million World Bank loan for health sector reform based on the USAID program model.

In FY 1997, all congressionally earmarked funds for infectious diseases, reproductive health and hospital partnerships were targeted towards supporting Kazakhstan's health care reform agenda. The major focus of **infectious disease efforts** in FY 1997 was a program to reduce children's morbidity and mortality due to acute respiratory infection and diarrheal diseases. In one *oblast*, a mortality survey and an assessment of health care facilities were conducted with USAID support. This activity will continue in FY 1998. Also in FY 1998, the Central Asia Tuberculosis Initiative to introduce World Health Organization (WHO) directly observed therapy will begin as a collaborative effort by USAID-funded implementing partners Centers for Disease Control and Prevention (CDC), Project Hope, and ABT Associates/Health Reform. This concentrated effort is expected to improve cure rates, reallocate budgetary resources to appropriate pharmaceuticals, and ultimately decrease the incidence of tuberculosis, as well as related expenditures.

USAID's contraceptive social marketing program, known as the Red Apple Program, continued to focus on making modern contraceptives available and accessible through Kazakhstan's commercial sector, contributing to a decrease in the general abortion rate or GAR (induced abortions per 100 women aged 15-49). The latest statistics (from 1996) indicated a GAR of 46.3, as compared to 54.9 in 1995 and 63.8 in 1994. The Red Apple Program will continue through FY 1998. In FY 1998, increased attention will be devoted to policy issues in the areas of reproductive health and demography in response to issues raised in preparing the Kazakhstani Government's Social Strategy to the Year 2030.

Medical partnerships in Almaty and Semipalatinsk actively organized training and program activities consistent with Kazakhstan's overall health sector reform agenda. A major focus was improved nursing education, with the establishment of a bachelor's degree nursing program in Almaty from which 49 nurses have graduated thus far. The Semipalatinsk Nursing Association, which was established and registered with partnership assistance, continued to be an active force for nursing and health reform in Semipalatinsk. Another major activity in FY 1997 was the establishment of a women's wellness center in Almaty to serve the comprehensive needs of women ranging from adolescents to senior citizens on a fee-for-service basis.

Democracy Programs

In FY 1997, the U.S. Government continued to support the development of non-governmental organizations (NGOs) and democratic institutions in Kazakhstan. USAID democracy programs were focused on promoting increased, better-informed citizen participation in economic and political decision-making, as well as increased responsibility and accountability on the part of government institutions.

A **Democracy Fund** grant was awarded to the Information and Research Center for Civic Education, a newly established NGO in Kazakhstan that seeks to facilitate the development of civic education curricula throughout all stages of education, and to help university students, professors and other educators to carry out civic education projects. The Center's functions include research, publishing and disseminating educational materials, conducting seminars and training on civic education, establishing contacts with international academic institutions and NGOs, and obtaining and distributing materials on civic education.

Dozens of grants were provided by USAID-funded organizations to promote **NGO development, independent media and legal reform**. As of the end of FY 1997, more than 300 local NGOs had participated in USAID-funded training programs. USAID's Regional Mission in Almaty extended through 1999 its cooperative agreement with the Counterpart Consortium to further the development of indigenous NGOs. In addition to the NGO development assistance provided by USAID, our embassy's Democracy Commission, administered by USIA, awarded a number of grants to local NGOs for democracy-building programs. With U.S. Government support, Interlegal, an indigenous NGO, took the lead in publishing a guide for all prospective NGOs that details the rights of non-commercial organizations in Kazakhstan.

To promote increased availability of information, USAID continued to provide **assistance to independent radio and television stations** in Kazakhstan. These independent media outlets had a difficult time in FY 1997 due to irregularities in the process of auctioning off broadcast frequencies, but they worked together through the Media Association to take legal action to address these problems, which were brought to light by Kazakhstan's prosecutor general. One of the major successes of FY 1997 was a senatorial debate organized by the Central Election Commission with support from USAID and USIA—Kazakhstan's first-ever nationally broadcast political debate. The program was well received and, most importantly, was aired with no editing and minimal interference by the Kazakhstani Government.

USAID-funded advisors helped the Kazakhstani parliament improve its legislative drafting abilities and its committee structures, so that it can act more efficiently and can increase its legislative initiative. USAID held a well-attended legislative drafting seminar for members of parliament, and provided assistance to increase the independence of the judiciary. The **American Bar Association's USAID-funded Central and East European Law Initiative (ABA/CEELI)** provided assistance to legal professionals in southern Kazakhstan, bringing together lawyers from all over the Shymkent *oblast* (region) to adopt the charter of the Southern Kazakhstan Association of Lawyers (SKAL) and to elect a board of directors. SKAL's goals include improving the legislative process in Kazakhstan and promoting public understanding of the law.

Energy and Environment Programs

Kazakhstan's environment has suffered disproportionately among the former Soviet republics from the shrinking of the Aral Sea and from serving as the testing ground for the Soviet Union's nuclear weapons programs. Kazakhstan has identified two major ecological disaster zones—the Aral Sea and the Semipalatinsk nuclear testing facility—and is actively pursuing compensation and rehabilitation for victims living in these areas. Kazakhstan wants to work with the international community on environmental issues and has participated in conferences on regional environmental problems, including those dealing with the Aral Sea disaster area.

In FY 1997, the \$22 million U.S.-led **Aral Sea Initiative** helped alleviate some of the environmental effects of desiccation of the Aral Sea Basin, provided potable water for area residents, and facilitated regional cooperation through multilateral water-sharing and resource management projects. With USAID support, a water users' roundtable organized by the Executive Committee of the Interstate Council for the Republics of Kazakhstan, Kyrgyzstan and Uzbekistan (ICKKU) drafted a framework agreement for water and energy exchanges on the Naryn Syr Darya cascade. The framework agreement is currently being amended through a collaborative process with the help of USAID, and will be considered for approval by the prime ministers at their next meeting in February or March 1998. The potable water projects and public health and sanitation activities in the Kazakhstani, Turkmenistani and Uzbekistani areas of the Aral Sea disaster zone were successfully completed and closed out in FY 1997, fulfilling Vice President Gore's commitment to provide potable water to some of the most affected areas. In Kazakhstan, 29 water wells at the Berdykol and Kosaman well fields have been rehabilitated and new water pumps and electric motors have been installed along the Aral-Sarabulak water transmission pipeline that provides water to Aralsk and Novokazalinsk, serving an estimated 800,000 direct and indirect beneficiaries. USAID's Regional Mission for Central Asia is now focused on addressing the underlying causes of the Aral Sea disaster through regional cooperation that promotes long-term international agreements for multipurpose management (power versus irrigation) of dam cascades; and for water sharing and quality in the Aral Sea Basin. The Mission will continue its national-level focus on introducing water pricing, privatizing local water-use rights, and organizing self-sustaining non-governmental water-user organizations.

In FY 1997, **USAID's program for legal and regulatory reform in Kazakhstan's energy sector** was expanded into a regional initiative encompassing oil and gas, as well as electricity. Resident policy advisors were placed in Kazakhstan and Turkmenistan (which border on the Caspian Sea) and Uzbekistan to advise on the following issues: 1) petroleum sector restructuring, as required to attract new foreign investment; and 2) environmental rules and regulations for on- and offshore oil/gas operations. In addition to providing expertise in electricity sector restructuring in Kazakhstan and Kyrgyzstan, USAID advisory services and training were used to support energy trade, contracting, and pricing reform among all five Central Asian countries through the preparation of regional framework agreements on frequency regulation, parallel operations, electricity dispatching and the establishment of wholesale power pools. This regional approach has created opportunities for USAID to pursue legal and regulatory reforms across the region.

Peace Corps

In mid-August, a new class of Peace Corps volunteers was sworn in, the fifth class of volunteers to serve in Kazakhstan. At the end of FY 1997, the total number of Peace Corps volunteers in-country was 84. A majority of the volunteers are teaching English as a foreign language in secondary schools and universities. Twenty-two of the volunteers are working in the environmental program, fourteen of them in environmental education and eight of them as health education volunteers in regional AIDS clinics throughout the country. In addition, fourteen economic development volunteers are teaching various business subjects in secondary schools and universities and are serving as part-time consultants to local businesspeople. Peace Corps volunteers also

worked in cooperation with USAID-funded programs implemented by the Counterpart Consortium and Volunteers in Overseas Cooperative Assistance (VOCA), as well as with a USDA-funded program implemented by Mercy Corps International whose mandate is to work with grassroots development groups.

Security Programs

Kazakhstan continued to play an important role in support of nonproliferation and regional security. Under the Defense Department's **Cooperative Threat Reduction (CTR) Program**, progress was made in completing the closure of nuclear testing tunnels at Degelen Mountain and the dismantlement of SS-18 missile silos. Progress was also made through CTR assistance in infrastructure dismantlement at the former Soviet facility designed for production of biological weapons (BW) at Stepnogorsk, Kazakhstan. An inter-agency team surveyed the BW facility at Stepnogorsk and prepared an initial assessment of dismantlement requirements. Through DOE's **Initiatives for Proliferation Prevention (IPP)** and the **International Science and Technology Center (ISTC)** in Moscow, a number of projects were approved and funded to redirect the BW scientific expertise from this facility to peaceful civilian research and development activities as part of the multi-agency Stepnogorsk Initiative. Developed in 1996, the Stepnogorsk Initiative addresses the potential proliferation threat posed by the BW production facilities and weapons expertise from the Stepnogorsk facility.

In June 1997, the **Defense Department/FBI Counterproliferation Program** conducted a basic training course on combating the proliferation of weapons of mass destruction (WMD) for 40 mid- to senior-level Kazakhstani officials at the International Law Enforcement Academy in Budapest, Hungary.

Preview of FY 1998 Programs

In FY 1998, the U.S. Government will continue to address the priority economic development concerns that have surfaced in Kazakhstan over the past year. We will expand our partnership activities where possible and feasible. Energy and environmental activities will assume a higher priority within the assistance portfolio, as we move to the next level of helping the Kazakhstani Government address the issues surrounding the rationalization of the energy sector. Assistance to market transition will continue apace, as will activities in the areas of democracy-building and health care reform. A new local government initiative will start building on successful housing reform and municipal development results achieved during FY 1997. Also in FY 1998, USAID is planning to support an NGO partnership between Pokoleniye, a pensioner's movement, and the American Association of Retired People (AARP). This, together with Democracy Commission assistance for Pokoleniye's first national conference, should start Pokoleniye out on the right path toward increased membership, platform definition and lobbying. USAID-funded U.S. NGOs will assist the Central Election Commission with preparations for Kazakhstan's upcoming parliamentary and presidential elections.

KYRGYZSTAN

Political and Economic Overview

In FY 1997, political and economic reform proceeded apace in Kyrgyzstan. On the political side, parliamentary by-elections were held, but electoral practices could not yet be considered fully evolved. Nevertheless, the Kyrgyzstani Parliament became one of the most active in the NIS. New legislation in many ways clarified the legal status of citizens, businesses and other organizations, although the courts remained weak and relatively ineffective. The Naryn Baptists, a religious group formerly denied registration by the Kazakhstani Government, was registered, and many other groups engaged in religious practices without difficulty. Press freedom may be enhanced through improved draft legislation amending the existing criminal code, or through executive pardons for journalists tried under libel charges. Hundreds of Kyrgyzstani non-governmental organizations engaged actively on these and other questions in FY 1997.

On the economic side, the national currency (the som) remained remarkably stable, inflation remained under control and was falling, real interest rates fell, and economic performance improved. The overall growth rate for 1997 may well exceed seven percent. According to a November 1997 article in *The Economist*, Kyrgyzstan is currently one of the three most rapidly growing economies in the former Soviet Union. However, the Kyrgyzstani economy recently received a large boost from the coming on-line of a gold-mining venture. With gold prices falling, it remains to be seen how much further such ventures will take the economy in FY 1998. Kyrgyzstan continued to benefit from the support of the International Monetary Fund (IMF) and other donors in FY 1997. Approximately three-fifths of Kyrgyzstan's economy was in private hands, and a small but burgeoning stock market facilitated further privatization and secondary trading. Bank reform resulted in an increasingly strong financial sector, and international accounting standards helped increase transparency in this and other sectors. Kyrgyzstan made substantial progress in its effort to accede to the World Trade Organization (WTO), a process that has already facilitated harmonization of Kyrgyzstani trade practices with world practices.

Overview of U.S. Government Assistance

In FY 1997, the U.S. Government provided approximately \$52.2 million in assistance to Kyrgyzstan, including \$12.1 million in privately donated, U.S. Government-transported humanitarian commodities and approximately \$1.1 million spent by the Department of Defense under the Foreign Military Funding (FMF) Program, the International Military Education and Training (IMET) Program, NATO/Partnership for Peace exercises and training at the Marshall Center in Garmisch, Germany. Under the PL-480 Program, USDA donated some 60,000 tons of wheat (valued at approximately \$9 million) in FY 1997, and paid for an estimated \$6 million in transportation expenses.

Though generally receptive to assistance programs, the Kyrgyzstani Government did not always follow through with full support of these programs in FY 1997. Due mainly to aggressive practices by the Kyrgyzstani National Tax Inspectorate, organizations receiving U.S. Government assistance, as well as organizations providing such assistance, were in some cases assessed taxes, and organizations were refused registration due to alleged back taxes. In particular, there seemed to be little understanding on the part of Kyrgyzstani tax officials about non-commercial monetization of commodities or the donation of computers and other equipment to non-commercial entities upon termination of a project. As a result, some organizations had to devote considerable resources to tax audits and attempts to register themselves.

Trade and Investment Programs

Kyrgyzstan has actively sought to accede speedily to the World Trade Organization (WTO), and appears likely to be one of the very first NIS countries to do so. To this end, USAID has funded a working party to advise the Kyrgyzstani Government on implementing the requisite changes and reforms in its trade regime, customs duties, and other related areas. The activities of the Overseas Private Investment Corporation (OPIC) were significantly slowed in FY 1997 due to an investment dispute in the telecommunications sector. Despite substantial progress in privatization, the U.S. Export-Import Bank (Eximbank) has heretofore been limited in its activities, as its most viable program continues to require sovereign guarantees.

Similarly, the activities of the **Central Asian - American Enterprise Fund (CAAEF)** were hampered by a court case which has dragged on for over a year without reaching resolution. The European Bank for Reconstruction

and Development (EBRD) and the World Bank nevertheless remained active in the pursuit of development projects in Kyrgyzstan.

Business and Economic Development Programs

A **U.S. Treasury Department advisor** helped the Ministry of Finance to develop further its government debt markets, and worked with the Kyrgyzstani Government to help establish consistent policies and efficient financial markets. Measures of this program's effectiveness include the fact that sales of government securities increased overall, the fraction of sales to the non-bank public increased significantly, and interest rates fell and then stabilized at a low level. Kyrgyzstan has achieved a dramatic increase in household participation in government security auctions—reaching 50-percent participation by retail during the summer—demonstrating strong popular confidence in the Kyrgyz Government and securities market. The resident government-debt advisor, who was stationed in Bishkek throughout FY 1997, also uncovered a Ponzi-type municipal bond scheme and convinced Kyrgyz authorities to intervene.

In FY 1997, **commercial law reform** continued to be a major focus of U.S. Government assistance to Kyrgyzstan. In FY 1996, the first part of a new civil code and a new tax code were completed. In FY 1997, USAID-funded advisors focused on such topics as the creation of laws on economic partnerships and enterprises, registration of legal entities, bankruptcy, foreign investment, collateral, banking, procurement, energy, and a new customs code. Work continued on legislation on securities, investment funds, the land code, land registration, mortgages, and the second part of the civil code, which addresses private contract rights, intellectual property and inheritance. A USAID-funded adviser worked directly with the presidential administration to establish legal information systems and to help implement and coordinate these laws.

In addition, many of the programs mentioned above, such as the EBRD, World Bank, and CAAEF, have substantial business development components.

Training and Exchange Programs

USIA: USIA's FY 1997 programs in Kyrgyzstan featured high school, undergraduate and graduate-level exchanges, as well as curriculum development exchanges for teachers and professors, and International Visitor (IV) programs for selected Kyrgyzstani professionals. A group of parliamentary deputies traveled to the United States under a FREEDOM Support Grant to study government ethics, and subsequently introduced ethics legislation in the Kyrgyzstani Parliament. USIA also sponsored an Internet access program that includes some 65 universities, schools and NGOs, and approximately 2,000 individual users. Alumni of USIA exchange programs networked with each other to provide new synergies, taught new courses, modified traditional practices in government offices, developed NGOs, and advised international organizations, helping to promote a more effective civil society.

USAID: By the end of FY 1997, over 800 Kyrgyzstani citizens had participated in USAID training programs. Of these, 345 received training in the United States. The remainder were trained within the Central Asian region or, in a few cases, in third countries. Under USAID's Farmer-to-Farmer Program, volunteer American farmers worked with Kyrgyzstani farmers on various assistance projects.

U.S. Department of Agriculture (USDA) – Cochran Fellowship Program: In FY 1997 eight Kyrgyzstanis received agricultural training in the United States under USDA's Cochran Fellowship Program. Our embassy hopes to expand this number in FY 1998, in order to help establish rural extension services, clarify rural land use practices, and otherwise stimulate the country's vital rural sector, which accounts for about two-thirds of Kyrgyzstan's population.

U.S. Department of Defense (DoD): Since August 1994, some 25 Kyrgyzstani officials have attended training programs at DoD's Marshall Center in Garmisch, Germany. The Defense Department also sponsored the attendance of Kyrgyzstani officials at various conferences. Under DoD's International Military Education and Training (IMET) Program, five Kyrgyzstani military officers received a full year of English language instruction, and a laboratory for English language study was established in Kyrgyzstan for use by other Defense Ministry personnel. Also under the IMET Program, a one-week conference was held in Bishkek for 54 officials, as well as a health resources management conference. In FY 1997, the Department of State allocated approximately \$250,000 for IMET training, which is managed by the Department of Defense. IMET funding is expected to

increase to \$375,000 for FY 1998. Under the Montana National Guard State Partnership Program, the Kyrgyzstani Ministry of Defense, National Guard, and Ministry of Emergency Situations and Civil Defense participated in a number of exchanges focusing on such topics as search and rescue techniques (for Ministry officials as well as helicopter pilots) and training for emergency medical personnel.

Democracy Programs

In FY 1997, U.S. Government-funded democracy programs in Kyrgyzstan focused on promoting (1) increased citizen participation by disseminating the results of a public opinion survey carried out by the USAID-funded International Foundation for Election Systems (IFES), (2) civic initiative planning on the local level, and (3) the development of special courses and training for lawyers, NGO leaders and others. The U.S. Government also provided support to independent radio and television stations by organizing training programs on effective management techniques, boosting revenue through advertising sales, using computer graphics on television, and enhancing the standards of the journalistic profession. These democracy programs served to enhance greater transparency, public discussion, accountability and responsiveness of the executive branch through the adoption and implementation of laws, as well as institutionalization of the judiciary as an independent branch of government.

Energy and Environmental Programs

Following up on the successful FY 1996 advocacy of a new national energy law and a law on the electricity subsector, a USAID-funded advisor continued work in FY 1997 to help develop implementing regulations for the licensing of electricity subsector operations. The same advisor also proposed national electricity tariff methodology and specific tariff rates, which were subsequently reviewed by Kyrgyzstan's state regulatory agency and by the parliament. USAID also supported the process of restructuring, unbundling, and privatizing the energy-sector para-statal entity KyrgyzEnergo. As of the end of FY 1997, 10 percent of KyrgyzEnergo had been privatized, and another eight percent was scheduled for privatization. Another USAID-funded advisor promoted the integrated development and economically efficient operation of regional electric power systems through international contracts and the creation of a competitive power market. USAID also supported regional cooperation in sustainable water management through the development of international treaties and other agreements on water pricing, quality, and cost recovery.

Social Sector and Humanitarian Programs

Since 1992, the U.S. Government has provided approximately \$69.7 million in humanitarian assistance to Kyrgyzstan; in FY 1997, approximately \$13.1 million was provided. This amount, which represents a substantial increase over the FY 1996 humanitarian assistance level of \$3.54 million, includes special projects, Defense Department excess property, and privately donated commodities (food, clothing, shelter, medical supplies, and medical equipment) shipped by the Office of the Coordinator of U.S. Assistance to the NIS.

Housing and health reform were the focus of USAID technical assistance, training, and support in the social sphere in FY 1997. **USAID's housing-sector reform project**, which involved land auctions and information programs, was successfully concluded at the end of FY 1997. USAID-funded technical assistance was instrumental in the drafting and passage of a law on condominium formation, a law on a unified property registration system, and a national housing policy.

USAID-funded health-sector reform activities continued for a third year with the Kyrgyzstani Government's recognition of the Issyk-Kul demonstration site and its support for the nationwide expansion of the Issyk-Kul model. The national "roll-out" began in August 1997 with the Health Insurance Fund introducing the Issyk-Kul hospital payments system through new contracts with three hospitals in Bishkek, as well as in the Chuy and Osh regions. At the Issyk-Kul demonstration site itself, work continued on strengthening the Family Group Practice Association, the group practices themselves, and a family medicine training center. With USAID support, a medical marketing team designed and implemented a public education campaign on self-referrals to hospitals. Although the Kyrgyzstani Ministry of Health and the Health Insurance Fund remained separate institutions, they agreed to use joint systems for provider payments, information, accounting, quality and benefits coordination. Such cooperation constituted a significant breakthrough in increasing efficiency and reducing costs. From now on, each citizen will have one social protection number and card, thus permitting coordination of all social programs. A joint computer center and related systems will link the Ministry of Health, the Health Insurance

Fund, and the Social Insurance Fund with a common database. Nationally, about 2,000 Kyrgyzstani health professionals participated in seminars related to the above-mentioned changes in the country's health system.

A U.S. Government-funded **infectious disease program** targeted the reduction of child morbidity and mortality. A health facility assessment was carried out in the Osh region, with the goal of reducing acute respiratory infection and diarrheal disease in children. Based on this assessment, a training program was established for assisting parents of children affected by these diseases—this activity will continue in FY 1998.

Under a **hospital partnership program** implemented by the American International Health Alliance (AIHA), USAID provided support to a hospital partnership between the University of Kansas Medical Center and medical facilities in Bishkek. Among other things, AIHA developed a draft curriculum in family medicine for the Kyrgyzstani Medical Academy.

Several activities focused on reaching World Health Organization (WHO) standards. The USAID-funded **Centers for Disease Control and Prevention (CDC)** carried out studies of cost-effectiveness, resulting in cost savings of approximately \$290 per cured patient through the use of WHO guidelines. In FY 1998, another WHO initiative, the Directly Observed Therapy Short Course (DOTS), is expected to improve cure rates, reallocate budgetary resources, and ultimately, improve overall health and reduce expenditures. In late FY 1997, field work was conducted for a Kyrgyzstani demographic and health survey. Based on preliminary results, there is a strong downward trend in the abortion rate.

Security Programs

In addition to the numerous military exchange programs mentioned above, a new **Foreign Military Financing (FMF)** program for Kyrgyzstan was begun in FY 1997. Although \$400,000 was allocated in each of the years FY 1996 and FY 1997, the final approval for Kyrgyzstan's participation was not completed until well into FY 1997, making a total of \$800,000 available. These funds were used for non-lethal procurements such as tactical medical equipment and communications equipment for the Ministry of Defense and the Kyrgyzstani National Guard. Another tranche of \$400,000 in funding is expected in FY 1998.

Under the NATO-affiliated **Partnership for Peace (PFP)** program, which is jointly funded by NATO and U.S. Government Warsaw Initiative funds, Kyrgyzstani officials attended planning conferences, joint exercises, and other events. Together with their counterparts from Kazakhstan and Uzbekistan, Kyrgyzstani military officials also participated in the PFP-funded (but U.S.-sponsored) Central Asian Battalion (CENTRASBAT), a program intended to facilitate the formation, training and maintenance of a regional peace-keeping battalion. The U.S. Embassy Defense Attaché's Office also used PFP funds to purchase a computer that will facilitate planning and coordination of PFP activities; a Kyrgyzstani civilian was hired to accomplish these tasks. Along these same lines, a PFP Information Management System (PIMS) was established to link the Ministry of Defense and the Kyrgyzstani National Guard with other PFP member countries.

Cross-Sectoral Programs

Peace Corps volunteers implemented projects in the areas of English language teaching and environmental education. The Eurasia Foundation and Asia Foundation also undertook several projects in Kyrgyzstan in FY 1997.

Preview of FY 1998 Programs

In FY 1998, our embassy in Bishkek plans to re-examine U.S. Government assistance programs in Kyrgyzstan, with a view towards focusing limited resources in such a way as to achieve maximum impact in several key areas. One critical area is likely to be the storage and treatment of radioactive uranium tailings, many of which are now stored in unstable containers near the headwaters of the Central Asian river system. Medical programs are also under review, given that some of the surplus medical equipment donated in FY 1997 appears dysfunctional and beyond repair.

MOLDOVA

Political and Economic Overview

The principal political event in FY 1997 was Moldova's presidential election, which resulted in the defeat of incumbent president Mircea Snegur by parliament speaker Petru Lucinschi, a self-described social democrat. The election, which was held in late 1996, was considered free and fair by international observers. On the economic front, official statistics showed a drop in Moldova's gross domestic product (GDP) during FY 1997, but widespread tax avoidance resulted in a substantial amount of economic activity going unreported. Indeed, widespread housing construction in both urban and rural areas, the growth of new retail establishments in cities, and construction of new gas stations throughout Moldova suggest that the economy has started to grow again. The average monthly inflation rate was held to less than 1 percent, an improvement over the 1.2 percent rate in FY 1996. Moldova's convertible currency (the leu) maintained its strength and was basically unchanged against the U.S. dollar for the second year in a row. Moldova's official external debt continued its gradual increase (\$950 million at the end of FY 1997, as compared to \$880 million at end of FY 1996), due largely to the external debt for energy (estimated at \$630 million), including \$240 million to Russia's Gazprom. Moldova gradually shifted away from the NIS countries to European sources for its imports, primarily Germany and Romania. At the end of FY 1997, Europe was providing about one-third of Moldova's imports. However, this did not diminish Moldova's continuing reliance on Russia for fuel, and as Moldova's primary export market.

Overview of U.S. Government Assistance

In FY 1997, the U.S. Government provided approximately \$38.9 million in assistance to Moldova, including \$9.0 million in privately donated, U.S. Government-transported humanitarian commodities. U.S. Government-funded assistance programs in Moldova continued to be interactive and synergistic; for example, USAID-funded advisors helped break up Moldova's collective farms into privatized units and helped issue land titles to individual farmers. In doing so, they were assisted by Peace Corps volunteers, who carried out complementary grassroots public education efforts and promoted the development of small and medium-sized businesses and non-governmental organizations (NGOs). Similarly, supportive local and national leaders who had previously participated in programs such as USDA's Cochran Fellowship Program and USIA's Community Connections program helped their local communities develop an understanding of the objectives of privatization. While helping develop a real estate market in Moldova, USAID's post-privatization program also simultaneously helped create a private-sector surveying industry, thus making it easier for agribusinesses and other investors to purchase enterprise land. USAID also helped develop a real estate market for land under privatized enterprises, a market-oriented tax system that encourages participant compliance, and sound fiscal policies and fiscal management practices. There was no P.L.-480 food assistance program in Moldova this past year.

Trade and Investment Programs

The U.S. Government's trade and investment programs achieved significant results in Moldova in FY 1997. A primary objective of these programs was to provide support for Moldova's accession to the World Trade Organization (WTO), a process that had already begun. Through its **Commercial Law Development Program (CLDP)**, the U.S. Department of Commerce helped improve Moldova's laws and administrative practices related to services, protection of intellectual property rights, customs code, product standards and public procurement procedures. U.S. Government-funded investment promotion programs focused on providing support to entrepreneurs in Moldova's small and medium-sized enterprise (SME) sector, where over 65 service and production businesses have borrowed nearly \$1 million and are maintaining a 100-percent repayment rate, and to the agribusiness sector, in which USAID resources have leveraged nearly \$7 million in private-sector investment and have created an estimated 90 new jobs.

In FY 1997, the **Western NIS Enterprise Fund (WNISEF)** remained focused on providing equity investment to create and strengthen small to medium-sized private enterprises, with the goal of demonstrating the potential for investment in Moldova. In over two years of activity in Moldova, the WNISEF has made four investments totaling \$9.4 million. Of this amount, \$1.1 million was for two loans that have been repaid, and the remaining \$6.3 million was for equity investments in companies that employ approximately 260 people.

Business and Economic Development Programs

In FY 1997, the main objectives of these programs were to (1) help develop a regulatory environment conducive to entrepreneurial investment and reasonable risk-taking, and (2) encourage the establishment of linkages between U.S. and Moldovan businesses. Although USAID-funded advisors were unable to persuade the government and parliament to accept market-determined land prices immediately, they did succeed in having the parliament reduce fiat land prices by 80 percent and in simplifying Moldova's existing titling and purchasing systems. A total of 110 privatized enterprises subsequently purchased their associated land in preparation for further economic activity. In the area of business development, the local staff at USAID's primary **Business Service Center (BSC)** nearly achieved financial self-sufficiency through refinement and sale of their training materials. Under **USAID's Food Systems Restructuring Project**, which was implemented by the Citizens' Network for Foreign Affairs (CNFA), linkages between U.S. and Moldovan businesses resulted in new investment in fruit and vegetable drying, a farm service center, a demonstration apple orchard, and a dairy plant.

In FY 1997, the U.S. Government participated directly in Moldova's historic decision to accelerate the breakup of its collective farm structure. With funding from USAID, experts from the Center for Private Business Reform/East-West Management Institute, the Booz Allen and Hamilton Company, and the Stewart Title Company implemented the reorganization and restructuring of collective farms, the distribution of agricultural land and property, and the issuance of constitutionally recognized land titles at 72 former collective farms in 31 of Moldova's regions. All together, about 250,000 land plots have been parceled and titled to over 70,000 farmers at a cost of about \$2.00 per land parcel. This affordable cost was achieved by utilizing private Moldovan firms. Because of the success of this program, the Government of Moldova has made the break-up of collective farms its highest priority. The government is extending the land titling program in 1998 to cover at least 500 collective farms, which constitute up to 70 percent of Moldova's agricultural land. The U.S. Government intends to support this effort fully in FY 1998.

U.S. Department of the Treasury: At the end of FY 1997, a resident Treasury Department budget advisor completed a three-year project to build budget and credit-law regulation, and then to implement a treasury system. This project has been closely coordinated with USAID and the International Monetary Fund (IMF), and the IMF will continue treasury system implementation after the advisor's departure. The first resident government-debt advisor completed a two-year assignment in November 1996, during which he focused on developing the primary market for government securities. His successor has furthered those efforts, although development of a secondary market has been inhibited by a transaction tax on securities. From January to September 1997, total outstandings increased from 287 million lei to 465 million lei. As of the end of FY 1997, Moldova was on track to surpass its target of financing 45 percent of the budgeted annual deficit with government securities.

Training and Exchange Programs

The overriding objective of FY 1997 U.S. Government-funded training and exchange programs in Moldova was to provide participants with exposure to democratic and market-oriented ideas while enhancing their individual technical capacities. USIA sponsored 18 Moldovan graduate students and undergraduates, and 37 high school students for long-term academic exchanges in the United States, as well as 218 professionals for short-term exchanges. Members of the Supreme Court of Moldova and the president of the Constitutional Court of Moldova participated in a USIA exchange program on the U.S. court system.

The business development programs described above benefited significantly from the 220 person-months of business exchanges and U.S.-based training implemented by the Commerce Department's Special American Business Internship Training (SABIT) Program and USIA's Community Connections program. Peace Corps volunteers helped identify many well-qualified and geographically dispersed candidates for these programs. In turn, these business exchange programs complemented the management skill training and technology transfer occurring through the 11 business service centers supported by USAID, the Peace Corps and the Eurasia Foundation.

A USIA exchange program on viticulture in a market economy for a group of Moldovans led to changes in the wine industry in Moldova. The participants were extremely impressed with the high technology used in the United States and how much faster seedlings produce in American wineries. The group was also amazed at the large tourism industry built around the U.S. wine industry. As a result of their program, one Moldovan winery has become the first to make it possible for tourists to purchase wine at the conclusion of their tours. Participants met with both the President and Prime Minister of Moldova to discuss their program and future plans, which include a possible American market for Moldovan wine. Participants had a chance to establish many U.S. contacts and invite business representatives to Moldova to follow up on these initial contacts.

Democracy Programs

The embassy-based, USIA-administered **Democracy Fund** awarded a grant to Femeia Azi, a Moldovan NGO that offers medical assistance and psychological counseling to women in need. Its members include professors, doctors, pensioners, and refugees from Transnistria. The grant supported the organization's project to open an office to which women can come on a regular basis for counseling and medical assistance, and to establish cooperative relations with hospitals and substance abuse centers. The project allowed the organization to conduct a series of conferences on issues such as women's and children's rights, dealing with stress and psychological crisis, and society without rape.

In FY 1997, USAID-funded democracy programs promoted citizen participation in political and economic decision-making, with an emphasis on the development of non-governmental organizations (NGOs), and supported the development of the legal profession and the judiciary. The USAID-funded **International Foundation for Election Systems (IFES)** helped complete a draft universal electoral code for local, parliamentary and presidential elections, as well as a draft law establishing a permanent electoral commission, both of which were subsequently submitted for consideration by the parliament. The **American Bar Association's Central and East European Law Initiative (ABA/CEELI)** helped Moldova's Judicial Training Center organize reviews of basic legal concepts for some 450 Moldovan judges, prosecutors, lawyers and notaries. With the encouragement of the ABA/CEELI program, Moldova's legal profession began reaching out to help others. For example, the Law Center began providing *pro bono* services to peasants affected by privatization issues, and the Young Lawyers' Association began producing a weekly radio broadcast about legal rights.

Energy and Environmental Programs

USAID support for reform in Moldova's energy sector expanded significantly in FY 1997, as the sector continued to be Moldova's primary concern due to production and utilization inefficiencies and the country's nearly 100-percent dependency on imported fuel. USAID technical assistance, in conjunction with World Bank resources, helped initiate the development of the legal and regulatory framework prerequisite to de-monopolization and privatization of the para-statal electric-power monopoly.

In FY 1997, the U.S. Environmental Protection Agency (EPA) provided initial support for the creation of a Regional Environmental Center in Chisinau. Slated to open in 1998, the Center will facilitate public participation in environmental decision-making and help promote public awareness of environmental issues. Similar centers are being started in Russia, Georgia and Ukraine. In addition, two Peace Corps volunteers worked with environmental NGOs to initiate Moldova's first Earth Day celebration this past April, garnering extensive favorable media attention for the NGOs.

Security Programs

In 1997, under the Defense Department's **Cooperative Threat Reduction (CTR) Program** the purchase of 21 nuclear-capable MiG-29 airplanes, 500 air-to-air missiles, and associated equipment was made from Moldova. Also, FY 1997 marked the first year that Moldova, along with seven other NIS countries, became eligible to receive **Foreign Military Financing (FMF)** under the Partnership for Peace program.

Social Sector Programs

Social sector assistance included USAID projects in health and family planning. A U.S.-Moldovan **medical partnership** which addresses training of trauma care units, complications from inappropriate treatment of patients, and infection from cardiovascular surgery continued to be highly valued by both the U.S. and Moldovan partners. USAID also took on a new focus, namely the challenges associated with women's comprehensive health care in Moldova. USAID-funded advisors helped provide counseling in other types of family planning besides abortions.

Humanitarian Programs

The Counterpart Consortium, a USAID-funded American NGO, continued to work through local Moldovan NGOs to address the needs of orphans and pensioners by providing medical equipment and supplies to municipal and district hospitals and regional clinics. In FY 1997, commodity deliveries were distributed to 36 different medical units, including Moldova's central blood bank and the Department of Civil Protection and Emergencies. Since 1994, Counterpart has provided Moldova with \$8.5 million in excess property donated by the U.S. Department of Defense and by U.S. private voluntary organizations (PVOs), with \$4.3 million delivered in FY 1997 alone.

Peace Corps

As of September 1997, 81 Peace Corps volunteers were working in Moldova. Half of this group was supporting implementation of USAID-funded agricultural land privatization activities, developing 14 NGOs (two of which are NGO training centers serving over 100 other NGOs throughout Moldova), promoting small and medium-sized enterprise growth through eight USAID-funded business service centers, and implementing health education programs. The other half of the group worked as English language volunteers, teaching and helping Junior Achievement conduct market-oriented economics classes at the high school level. In doing so, these volunteers not only promoted free-market thinking, but also established a basis for long-term linkages between U.S. and Moldovan citizens.

The Eurasia Foundation

In FY 1997, the Eurasia Foundation awarded 13 grants totaling approximately \$300,000 to a variety of Moldovan NGOs. The Foundation focused on developing the effectiveness of these NGOs, with the specific intent of broadening the range of organizations receiving NGO development grants. The Eurasia Foundation increased its efficiency in Moldova by selecting a local representative, supporting a local NGO development center actively involved in management and training seminars throughout the smaller urban areas of Moldova, and by more intensely coordinating its activities in this area with the Soros Foundation.

Preview of FY 1998 Programs

In FY 1998, USAID's technical assistance programs will become more focused through the expansion of three existing activities—agricultural land privatization, trade and investment promotion, and energy-sector privatization—and the completion of efforts in the area of capital-market development.

RUSSIA

Political and Economic Overview

Throughout early FY 1997, political attention in Russia was focused on the health of President Yeltsin, whose convalescence from heart surgery in late 1996 was complicated by pneumonia. By the second half of FY 1997, virtually all of Russia's 89 regions had directly elected their governors, thus significantly enhancing the independence and representational nature of the Federation Council, Russia's upper house of parliament. However, a lack of executive leadership caused the Russian Government's reform program to drift. On March 6, a reinvigorated President Yeltsin made a strong political "comeback" with a speech before the parliament in which he outlined a re-energized economic and political program and reasserted authority over the government. Yeltsin's health subsequently improved steadily so that, by the end of FY 1997, he appeared solidly in command.

The peace agreement signed with Chechnya in 1996 remained in effect throughout FY 1997, although Chechnya and the surrounding areas remained very dangerous, with numerous reported kidnappings and bombings. In FY 1997, Russia and Chechnya signed an agreement to cooperate on the refurbishing of an oil pipeline through Chechnya for the delivery of Azerbaijani oil. This agreement, however, has not yet been implemented. Russia's efforts to reintegrate the Commonwealth of Independent States (CIS), including the announcement of the Russian-Belarusian Union, proved to be merely political gestures, with little meaningful economic impact.

In March, President Yeltsin reconfigured his cabinet, retaining Viktor Chernomyrdin as prime minister but naming a new, younger set of ministers featuring two "young reformers" as first deputy prime ministers: Anatoliy Chubays and Boris Nemtsov. Their mandate was to reform the budget process, consolidate achievements in the monetary sphere, take concerted action on enterprise restructuring, solve problems in the cost and delivery of social benefits, and attack corruption. Swift action came in the form of decrees that reorganized government structures to eliminate certain inefficiencies and vulnerabilities of government management. The government took the first steps toward reform in critical structural areas, including natural monopolies, pensions, housing, and the military.

By the end of the fiscal year, however, the momentum behind reform had slowed. First, the Russian Government's efforts to move its legislative agenda through the State Duma met with limited success. The Duma failed to adopt two critical pieces of the government's program: a new tax code and an overhaul of the system of social benefits. Without these reforms in place, efforts to produce a realistic and workable government budget were greatly complicated, and the government was forced to implement a series of sequestrations. On the positive side of the ledger, the Duma did allow other important legislation to move forward, and in October, the government and parliament established several consultative bodies to facilitate reaching agreement on major economic and social issues.

In November 1997, Chubays was caught up in a scandal that revolved around allegations that he and some of his close associates had accepted inappropriate advance payments for a planned book on privatization; as a result, he lost his position as Finance Minister and several of his closest supporters in the government were replaced. Combined with the slow progress of many important structural reforms, this incident tempered earlier optimism about Russia's short-term prospects for strong and sustained growth.

Still, the Russian Government's renewed efforts at economic reform did begin to show results in FY 1997. While forecasts for positive growth in 1998 have been lowered, the contraction of the Russian economy appears to have ended in 1997. Severe revenue shortfalls continued, but the government made important progress this past summer in increasing competition and revenue generation under its privatization program. As a result, the government was able to eliminate pension arrears and to significantly reduce wage arrears. Previous years' successes in financial stabilization and lowered inflation stayed firmly on track in FY 1997. With the exception of tax revenue collection, which remained disappointingly low, the Russian Government met the policy and structural targets of its International Monetary Fund (IMF) program. In FY 1998, the Russian Government is expected to continue to work with the parliament to pass key pieces of economic legislation, starting with the tax and budget codes, and moving on to land reform and an overhaul of the system of social benefits.

Overview of U.S. Government Assistance

In FY 1997, the U.S. Government provided approximately \$624.8 million in assistance to Russia, including \$20.9 million in privately donated, U.S. Government-transported humanitarian commodities. USAID's FY 1997 obligations for Russia totaled an estimated \$150 million, including \$3.1 million for training programs, \$72 million for enterprise funds, \$ 5 million for the Eurasia Foundation, \$19.5 million for private-sector reform programs, \$12.2 million for economic restructuring programs, \$ 2.6 million for housing-sector reform programs, \$17.7 million for democratic reform programs, \$967,500 for food-system restructuring programs, \$ 7.2 million for health programs, \$ 5.4 million for environmental programs, \$ 3.2 million for energy programs, and \$83,400 for humanitarian and special initiatives. The U.S. Department of Agriculture (USDA) shipped 24,800 metric tons of soybean meal, wheat flour, corn, and vegetable oil to Russia, valued at over \$16 million. In the second half of the fiscal year, an interagency group, led by the Coordinator of U.S. Assistance to the NIS, began implementation of the Regional Investment Initiative (RII), a major new effort to utilize U.S. assistance resources in a concentrated way for the purpose of improving the climate for trade and investment in Russia's regions.

Trade and Investment Programs

Regional Investment Initiative (RII): At the February 1997 meeting of the Gore-Chernomyrdin Commission, Vice President Gore and Prime Minister Chernomyrdin signed a joint statement announcing a special initiative "designed to create a climate for private investment in Russia's regions and attract foreign and domestic capital." The Regional Investment Initiative (RII) was conceived as a joint effort between the two governments, in partnership with selected Russian regional governments, to remove obstacles to trade and investment. U.S. Government agencies are working with regional authorities to develop a set of priorities to attract investment, which will serve as a framework for a package of technical cooperation, financing and partnership activities. By the end of June, the U.S. and Russian Governments had agreed on the selection of the first two regions for this program: Novgorod *Oblast* (Region), and the Russian Far East, with a particular focus on Khabarovsk Kray and Sakhalin *Oblast*. For each region, the Coordinator's Office recruited a representative whose role is to coordinate the efforts of the various U.S. agencies and contractors involved in the RII, and to serve as a liaison with the regional authorities and other local partners. Program activities commenced in Novgorod during the summer, and will get under way in the Russian Far East during the first half of FY 1998. At the end of the fiscal year, the selection of a third region—Samara *Oblast*—was announced. The RII is a key test of the overall assistance strategy of emphasizing trade, investment, partnerships and exchanges. It is hoped that the RII will create models of success in four target regions, which can then be replicated in other Russian regions. The RII supplements but does not replace activities to promote trade and investment, strengthen small and medium-sized business, and expand regional capacity to generate economic growth in other parts of Russia.

In FY 1997, the **U.S.-Russia Investment Fund (TUSRIF)** reached the level of \$1 million in loans per month in its small business program, and expects to reach \$1.5 million per month in the second quarter of FY 1998. TUSRIF's direct investments this past year included \$3 million for the Bitech Petroleum Corporation, which operates in the Komi Republic. Since its inception, TUSRIF has disbursed nearly \$78 million in loans to small businesses and banks, and direct investments.

The slowdown that the **U.S. Trade and Development Agency (TDA)** experienced in FY 1996 with respect to new project proposals coming in from Russian and U.S. companies reversed itself in early FY 1997, when the demand for TDA funding in Russia began to increase steadily. Throughout FY 1997, TDA enjoyed a healthy resurgence in its project pipeline. Examples of recent projects which received TDA funding include an \$800,000 feasibility study on upgrading Russia's electric power distribution system, a \$300,000 study on gas-fired boiler utilization, and a \$150,000 study to develop a peanut processing facility. In September 1997, TDA sponsored a conference on the oil, gas and mining sectors in the Russian Far East. TDA has a steady stream of projects in its FY 1998 Russian project pipeline, including potential projects in the health, aviation, port and environmental sectors.

Business and Economic Development Programs

The U.S. Government continued to support small business and entrepreneurship in Russia in FY 1997. As of the end of the year, over 200,000 Russians had received USAID-funded business training. In FY 1997, the World Bank began financing the **Business Support Center Foundation**, a Russian organization which is a spin-off from USAID's recently completed business support project. The World Bank funding will allow the

Foundation to continue work on the development of Russian business associations and to provide management support to its regional Business Support Centers without U.S. Government funding.

USAID signed a new agreement with **the American Russian Center (ARC) of the University of Alaska at Anchorage** to continue the ARC's successful business management training programs at four principal ARC sites in the Russian Far East—Khabarovsk, Yuzhno-Sakhalinsk, Magadan and Yakutsk—and to conduct advanced management training in Alaska for Russian entrepreneurs. Business planning and marketing form the core of the ARC's four- to six-week basic business course, which has been completed by over 7,000 Russians in the Russian Far East during the past three years. In addition, over 250 Russian entrepreneurs have completed the ARC's six-week advanced management course in Anchorage. Another 1,500 Russians will complete in-country ARC training courses over the next year, and 125 will take the U.S.-based advanced training course.

In FY 1997, **Peace Corps** volunteers in western Russia provided a wide range of technical business assistance, including consultations, conferences, lectures, workshops, scholarship programs, courses, publications and interviews. Peace Corps volunteers also implemented over \$135,000 in special projects for 11 communities. A total of 3,487 Russian citizens, including 2,095 women, participated in Peace Corps projects and activities in FY 1997.

In FY 1997, 189 English-speaking Russian entrepreneurs and 9 local government officials traveled to the United States for internships under **USIA's Community Connections program**. This past summer, an additional 450 entrepreneurs and 22 local government officials from 11 Russian regions were recruited for travel starting fall 1997 through winter 1998. USIA also sponsored the **Productivity Enhancement Program (PEP)** implemented by the Center for Citizen Initiatives (CCI), which provided 187 internships for Russian entrepreneurs who could pay their own travel and per diem expenses. A projected total of 750 additional entrepreneurs will travel to the United States on PEP programs from fall 1997 through winter 1998. USIA continued to follow up with alumni of its business programs, tracking the successes and improvements that they subsequently made in their businesses.

As of the end of FY 1997, **the Commerce Department's American Business Centers (ABCs)** located throughout Russia had serviced 2,292 clients and collected \$2.12 million in revenues for services rendered to U.S. and Russian firms. In addition, the ABC Program, in cooperation with the U.S. and Foreign Commercial Service offices in Frankfurt and Brussels, organized trade and investment conferences in those cities, each of which was attended by some 100 participants and provided additional clients for the ABCs.

As of the end of FY 1997, **the Commerce Department's Business Information Service for the NIS (BISNIS)**, had helped U.S. companies generate about \$1.6 billion in trade in Russia and the other NIS. BISNIS devoted the August edition of its *Search for Partners* publication to joint venture opportunities identified by Peace Corps volunteers in several Russian regions. The *BISNIS Trade and Tenders* publication distributed 82 trade leads in FY 1997, as a result of which 19 Russian companies from Vladivostok received 190 proposals from U.S. companies. Two of those companies signed purchase contracts with U.S. companies, and another two were expected to sign contracts with U.S. suppliers soon. Five other Russian companies were in negotiations with U.S. firms.

U.S. Department of the Treasury: In FY 1997, two resident Treasury Department budget advisors worked with Deputy Finance Minister Vyugin. The first advisor's medium-term macroeconomic forecasting model is now in use, and his initial work on the ability of the Russian savings rate to support government debt structures will be continued. In a joint U.S.-Russian effort with the support of the University of Michigan Survey Research Center, the second advisor helped develop a fully operational consumer sentiment index to be used as a reliable leading indicator. It is expected that Russia's State Committee on Statistics (GosKomStat) will incorporate the methodology into its regional surveys. The Department of the Treasury has also had an ongoing exchange with Russia's Chamber of Accounts, which has focused over the past year on government credit and bank oversight/regulation, and the role of the federal government in mineral leasing. Additional projects included work for the Federation Council and Duma on the validity of Russian standard-of-living statistics, and most recently, intermittent assistance to the Ministry of Finance and Duma on drafting an organic budget code. In FY 1998, the Treasury Department intends to place a resident budget advisor to provide assistance on the implementation and enactment of the budget law and to address sequestration issues. Throughout FY 1997, the Treasury Department conducted a series of seminars and discussions on methods of handling troubled banks with the Central Bank of Russia (CBR). The seminars were successful, resulting in a formal request by the CBR for a

resident banking advisor to assist in addressing Russia's insolvent banking system, who began his assignment in early November. In addition, three resident tax-policy advisors worked on the drafting and implementation of Russia's tax code, focusing on the following areas: 1) drafting legislation and providing comment on proposed amendments; 2) addressing the tax arrears and collections problem by revising procedures for handling arrears and collecting current taxes, and improving audit procedures; 3) analyzing the revenue impact of proposed changes to the tax laws; and 4) developing revenue estimation models. In FY 1998, the advisors will work on the phasing-in of parts of the tax code, which will include continued assistance with tax compliance and collections, revenue estimating and modeling, and drafting and providing comment on tax legislation.

Training and Exchange Programs

USAID: In FY 1997, USAID provided short-term (3- to 4-week) U.S.-based training to 281 Russian professionals in one of three general areas: economics, democracy and social transition. The total number of Russian professionals who have participated in USAID's U.S.-based training programs since 1993 is 4,800. More than 4,000 of these returned trainees have received USAID-funded follow-up training in Russia.

USIA Faculty Exchanges: A total of 170 Russian teachers were awarded USIA's Teaching Excellence Awards in the fields of English language and American studies, and 30 finalists participated in a special U.S.-based training program this past summer. Another 55 teachers came to the United States under USIA's Partners in Educational Reform program, as well as 22 junior faculty members under the Junior Faculty Development Program.

USIA Professional Exchanges: In FY 1997, USIA sent 125 Russians to the United States on FREEDOM Support group programs, bringing the total number of participants since FY 1992 to 624. The program continued to meet its goal of introducing influential Russians to their professional counterparts in American society. In its first full year of activity, **USIA's Community Connections program** brought 237 regional officials and professionals from nine regions of Russia to U.S. communities in teams of ten people for programs in the following fields: environmental policy; public administration and public policy; federalism; criminal justice; education in community colleges; state and local taxation; real estate and land management; public health; civic education; law enforcement; fiscal federalism (budget and taxation); and social services for the unemployed. USIA also began follow-up activities with returning participants, conducting evaluation sessions with eight of the nine groups. Also under the Community Connections program, 63 local officials from six regions traveled to the United States to learn how U.S. communities provide support for the development of small and medium-sized businesses.

USIA's Russian Parliament exchange programs continued to generate an extraordinary amount of good will and personal contact, allowing for frank and open discussions with U.S. policymakers. A total of 24 parliamentary deputies and 23 professional staffers participated in USIA parliamentary exchange programs in FY 1997, bringing the cumulative number since FY 1992 to 145 deputies and 70 staffers. USIA organized an exchange program for the chairman and members of the State Duma's Education and Science Committee which helped strengthen the Committee's relationship with its U.S. counterparts and secured its support for USIA academic exchange programs. USIA also organized a program on World Trade Organization (WTO) issues for the Deputy Chairman of the Duma and other officials, during which the group realized the need to examine the issue of direct foreign investment in more depth. The participants requested and helped arrange a follow-up program on WTO issues for Duma and Federation Council committee staffers and, at the Duma's request, a program for Duma deputies on foreign direct investment. As a result of meetings at the Commerce Department and the International Center for the Settlement of Investment Disputes, the Duma delegation will send a translated version of the draft legislation to experts at both organizations for their advice. In addition, a program in September 1996 for the previously inaccessible Defense Committee enabled our embassy in Moscow to arrange numerous subsequent meetings with visiting U.S. officials. USIA also organized a program for professional staffers from the Duma and Federation Council and the Auditor of the Accounting Chamber on civilian oversight of the military. In FY 1998, USIA plans to organize exchange programs for some 40 deputies and 10 staff members. (see also USIA Women's Programs below)

USIA Independent Media Exchanges: USIA provided internships and other U.S.-based exchange programs for journalists from Russia's regions, beyond the major media markets of Moscow and St. Petersburg. Most of the journalists came from the Urals, Western Siberia, and the Russian Far East. These programs emphasized management issues, with the goal of increasing the survivability of independent Russian newspapers, radio and television stations. The National Forum Foundation and Duke University organized USIA-funded exchange

programs for about 25 Russian journalists, and in FY 1998, the National Forum Foundation and the International Center for Journalists will organize additional programs of this type.

USIA Women's Programs: In FY 1997, USIA actively supported the participation of women leaders in workshops and training programs designed to enhance their leadership skills and to provide contacts with women leaders in the United States and other countries. For example, USIA sponsored 12 Russian women delegates to the July workshop "Vital Voices: Women in Democracy" in Vienna. In August, USIA organized a three-week, U.S.-based FREEDOM Support Grant program for 10 women political leaders to study women's participation in the U.S. political system. USIA also sponsored the Russian-language publication of the book *Women's Rights as Human Rights*. In March, USIA organized a parliamentary exchange program for the chairperson and members of the Duma's Committee on Family, Women and Social Issues, at their request, to provide an opportunity for them to consult with their U.S. counterparts and with experts on legislation regarding family issues.

USIA Academic Exchanges: Academic exchanges continued to be an effective mechanism for reaching out to the next generation of reformers in Russia. As of the end of FY 1997, there were some 360 Russian high school students in the United States under USIA's Future Leaders Exchange (FLEX) Program, and about 300 U.S. students in Russia under the School Linkage Program. In addition, 59 undergraduates were in the United States under the FREEDOM Support Act (FSA) Undergraduate Exchanges Program, as well as 33 graduate students under the FSA Graduate Exchanges Program.

The **Commerce Department's Special American Business Internship Training (SABIT) Program** brought 202 Russian interns to the United States in FY 1997, bringing the total number of Russian participants since the program's inception to 695. SABIT interns received training in the areas of financial services, insurance, power generation, telecommunications standards, environmental cleanup, and food processing and packaging. The SABIT Program also organized a roundtable discussion between SABIT alumni and representatives of the American Chamber of Commerce on the topic of consumer-goods certification procedures. As of the end of FY 1997, American companies had attributed over \$70 million in export revenues to U.S.-Russian business relationships forged by the SABIT Program. More than half of the participating U.S. companies have formed ongoing relationships with their Russian contacts, and several participating companies established offices in Russia, or formed joint ventures with Russian companies, in FY 1997.

Under **USDA's Cochran Fellowship Program**, 66 Russian agricultural specialists traveled to the United States for short-term technical training, bringing the cumulative total to 452. Areas of focus included grain trading and marketing, food service and restaurant management, meat processing, sanitation, packaging, distribution, soybean processing, and international trade. In addition, two groups of Cochran Fellows participated in a trade show organized by the Food Marketing Institute and the World Dairy Expo, both of which were held in Chicago. Returning Russian participants in the Cochran Program have greatly increased agricultural trade linkages for U.S. exporters wishing to expand their markets in Russia.

Democracy Programs

Anti-Crime Training and Technical Assistance (ACTTA) Program: Training provided to Russian law enforcement agencies under the ACTTA Program expanded substantially in FY 1997, with the number of courses and seminars increasing from less than 50 in FY 1996 to more than 60 in FY 1997. U.S. Government-funded law enforcement training also reached a broader cross-section of Russian society and government in FY 1997, including NGOs, the Ministry of Public Health, the Central Bank and the Federal Border Guard Service. While, as in earlier years, the majority of courses and seminars focused on themes related to organized crime and financial crimes, new hallmarks for FY 1997 included more than half a dozen courses on community policing and three courses on demand reduction and drug-abuse awareness. In addition, work was begun on developing a comprehensive program to address the issue of violence against women. As part of this initiative, the Department of State, in conjunction with the Department of Justice and the Federal Judicial Center, sponsored a conference in April on criminal justice issues in the international exploitation of women and children.

In FY 1997, our embassy in Moscow launched its **Program for Contemporary Society**, a \$1.4 million small-grants program administered by the Eurasia Foundation, under which Russian NGOs, local government institutions, and educational organizations can apply for small grants of up to \$25,000 to support community-based projects. Proposals are submitted to an embassy commission that meets quarterly and approves the grant awards. In FY 1997, the commission approved nine awards for a total of over \$121,000. In late

September, the commission met for its third quarterly session and approved 17 grants totaling almost \$298,000 for disbursement in early FY 1998. For example, a grant was awarded to the Pava Center in Vologda to construct a museum in a building that was used as the U.S. Embassy from February 1918 to July 1918. (During the turbulent period of the Russian Revolution and the waning days of World War I, U.S. Ambassador David Francis evacuated his staff from Moscow to Vologda.) Besides assembling and exhibiting historical materials, the project will include seminars and workshops with U.S. and Russian experts on American history, political science and culture. The museum project director has already had extensive contacts with Ambassador Francis's family and with the Missouri Historical Society.

Since 1994, four USAID-funded **NGO resource centers** have supported the development of more than 2,000 NGOs in over 60 cities throughout Russia. Together, these programs have reached Russians in one-third of the territory of Russia. Over 4,000 individual consultations have been provided to NGOs in the areas of planning, financial management, social marketing and legal environment, and over 80 NGO trainers have completed a train-the-trainer program. U.S.-Russian NGO partnerships have been strengthened, with over 350 Russian NGOs receiving direct grants or participating directly in partnership programs. Under the U.S.-NIS PVO Project, 85 percent of all partnerships begun with USAID support have continued even after the conclusion of their grant funding.

The USAID-funded **American Center for Labor Solidarity (ACLS)** of the AFL-CIO, formerly known as the Free Trade Union Institute (FTUI), provided seminars and training workshops to independent trade union activists. The combined membership of the national and local unions that have benefited from ACLS programs exceeds 4.2 million. In December 1997, ACLS and the Confederation of Free Trade Unions of the Far East conducted the first "labor school" for free trade unionists. A total of 37 activists from nine cities participated in the six-day program. In addition, ACLS-sponsored public-interest law clinics have provided well over 2,500 legal consultations and representation in more than 300 court cases on a wide range of labor issues.

The USAID-funded, U.S.-based media development organization **Internews**, continued to work with its Russian partner organization **Internews-Russia** to nurture over 90 emerging independent regional television stations, having helped to raise their audience share to over 12 percent of the Russian viewing public. Since 1993, 59 of these stations have joined the Independent Broadcasting System, which functions as a program-buying cooperative and provides a combined total potential audience of 50 million with a mix of professionally produced local news and entertainment programs.

USIA provided \$330,000 in core funding for the **Russian-American Press Information Center (RAPIC)** to support the continued development of Russia's independent media. RAPIC continued the process of Russifying its operations, registered as a Russian NGO, and renamed itself the **National Press Institute (NPI)** of the Russian Federation. USIA helped NPI seek USAID funding which, in FY 1998, will be NPI's core funding. Under the auspices of NPI, a USIA-funded project was initiated to provide Internet access to up to 50 media outlets (including regional media and media specializing in ecological issues and the disabled) and for journalism departments at regional universities. This project is expected to come fully on-line in FY 1998.

With assistance from the USAID-funded International Republican Institute (IRI), the **Moscow School of Political Studies (MSPS)** expanded its training program in democratic political culture and practices into the southern Russian regions of Astrakhan and Rostov-on-Don, and published four volumes in its library series. Since 1992, over 1,000 academics, politicians, and policy-makers from across Russia have participated in MSPS training programs. Several of its graduates are State Duma deputies and members of the presidential administration. With USAID support, the school has translated, published and distributed over 12,000 copies of books by noted Western experts on democracy and market economics, and has organized series of national and regional seminars.

The **International Republican Institute (IRI)** and the **National Democratic Institute for International Affairs (NDI)** continued their USAID-funded work in political party training, civic advocacy, local government, and NGO development. IRI and NDI worked with pro-reform political parties in 16 of Russia's regions. Since 1994, approximately 16,000 political party representatives and civic advocates have been trained in the conduct of political campaigns and in the construction and management of political party organizations. IRI helped establish an academy to train local political party leaders using Russian trainers, thus building an in-country training capacity.

The U.S. Defense Department's **International Military Education and Training (IMET) Program**, whose Russian component is administered by our embassy's Security Assistance Office (SAO), expanded in FY 1997 to include a number of students from the Russian Ministry of Defense in U.S. military schools and institutions. These students were exposed to the nature of civil-military relations in a democracy and to the views of senior U.S. military leadership on the role of the military in the United States. The SAO also hosted seminars with participants from major civilian and military organizations in the Russian Government. In addition, SAO personnel arranged visits of high-level Russian officers to the United States to introduce them to their U.S. counterparts and to let them see firsthand how the U.S. military works in a democratic society. The SAO's budget for FY 1997 was \$800,000, allowing a total of 59 students to train in the United States and allowing the SAO to sponsor two seminars hosted by the Department of Defense.

Partnership Programs (see also USIA Programs section in Part III)

Since the beginning of its program in Russia, USAID has funded over 100 partnerships. As of the end of FY 1997, the USAID-funded **NIS Institutional Partnerships Project** had funded 16 Russian-American partnerships. Through these partnerships, over 7,200 Russian professionals had received training through training-of-trainers and internship programs. Participating Russian professional organizations, such as the Russian Grain Union, the Russian Road-Builders Association, and the Russian Chamber of Commerce and Industry, substantially increased their membership, and a number of new self-sustaining organizations emerged: five NGO resource centers, two continuing education centers, a trade office in Pskov, and a center for family medicine in St. Petersburg. Under the Institutional Partnerships Project, manuals, videotapes, curricula and other partnership products have been disseminated to 125 depositories throughout Russia. The most successful partnerships will receive additional support from USAID in FY 1998 under the program **Supporting Partnerships into the Next Century (SPAN)**, which will be implemented by the International Research and Exchanges Board (IREX).

As a result of USAID's **Hospital Partnership Project**, nine hospital partnerships in six Russian cities now support programs in cardiology, surgery, maternal and child care, nursing and medical education. Through this project, about 300 elderly Russians participated in a home health program, and since October 1994, the Vladivostok Emergency Medical Services Training Center has trained over 1,600 physicians, nurses and non-medical personnel. In addition, nearly 2,000 women from Moscow and the surrounding regions participated in wellness information sessions and an exhibit fair on healthy lifestyles.

Energy and Environmental Programs

FY 1997 marked an important transition in this area of technical assistance, as many components of **USAID's Environmental Policy and Technology (EPT) Project** neared completion, such as all four of the urban-industrial regional pilot activities. Meanwhile, efforts in the Russian Far East will be continued through the end of FY 1998. USAID-funded demonstration activities in eight pilot cities—Tver, Gagarin, Dmitrov, Nizhniy Tagil, Volgograd, Novokuznetsk and the Moscow *Oblast* (Region)—resulted in reduced pollution through low-cost or no-cost technologies, increased public involvement in the decision-making process, and significant policy and regulatory changes at the regional and national levels.

A new health-risk assessment methodology was tested in seven Russian cities, resulting in the establishment of a federal working group and the drafting of an action plan to utilize this methodology on a national scale, including necessary legislative amendments to various laws and regulations. Environmental education pilot programs in the Moscow *Oblast* were expanded to an additional 80 regions throughout Russia. Since this past summer, 15 grants have been provided to Russian organizations to implement environmental activities in 32 different regions throughout Russia. In addition, in an effort to further integrate environmental issues into market reform, a new pilot training effort was initiated to introduce ISO 14,000 management standards into Russian industrial practice, including representatives from key industrial enterprises throughout Russia.

USAID-funded work in Russia's electric power sector resulted in the completion of two key reports: the Joint Electric Power Alternatives Study (JEPAS) and a plan for the continued restructuring and privatization of the Russian power industry. Work also continued with Russia's regional utilities. Over the past 16 months, USAID-funded advisors completed a diagnostic review of 11 regional electric power utilities, upon which they based the design of a new program to assist privatized local utilities and generating companies in their movement to more commercially-based operations.

The **U.S. Environmental Protection Agency (EPA)** helped reform Russia's air-quality management system by providing assistance in the following areas: ambient monitoring, stack testing, emissions inventories, air dispersion models, control strategies, and enforcement mechanisms. In Volgograd, EPA introduced low-cost pollution prevention and control measures at eight factories which reduced stationary-source particulate emissions by an estimated eight percent citywide. This includes the installation of "pre-cast deltas" at Volgograd's Red October Steel Plant which can reduce fugitive emissions by up to 50 percent and could improve efficiency at all of Russia's electric-arc furnaces. Other U.S. environmental technology can significantly reduce pollution in Russia, such as "E-Sox," which reduces sulfur dioxide emissions at coal-fired power plants and "reburn," which allows electric utilities to cut nitrous oxide emissions in half. If all EPA-recommended measures are implemented, the potential for total emissions reductions in Volgograd is 30 to 35 percent. The new air-monitoring techniques demonstrated in Volgograd were approved by federal decree, thereby expanding their application throughout Russia.

In Nizhniy Tagil, an officially declared ecological disaster zone, USAID, EPA and the local city administration pooled their resources to conduct an **environmental small-grants program** designed to show the community that even limited funds can have a big impact. As a result of 11 small grants totaling \$200,000 to NGOs and environmental institutions, more than 3,000 residents, students, teachers and parents joined together to clean up and beautify the city. These activities resulted in the clean-up and closure of 15 unauthorized dump sites, the planting of some 2,000 trees and bushes, and the creation of 40 flower beds with more than 4,000 flowers. Also in Nizhniy Tagil, EPA undertook a series of low-cost measures, such as the installation of water filters at schools and hospitals, that improved the quality of the city's drinking water.

In FY 1997, EPA provided initial support for the creation of a **Regional Environmental Center** in Moscow. The Center, slated to open in 1998, will facilitate public participation in environmental decision-making and help promote public awareness of environmental issues. Similar centers are being started in Moldova, Georgia and Ukraine. In cooperation with Norway, EPA continued work on the upgrade and expansion of a low-level liquid radioactive waste processing facility in Murmansk. The facility will give Russia the capacity to process this waste from decommissioned nuclear vessels and will serve as an alternative to the dumping of these wastes into the Arctic Seas.

Nuclear Safety Programs

The **U.S. Energy Department's (DOE's)** work to improve safety at Soviet-designed nuclear reactors is a coordinated, broad-based effort in cooperation with other donor countries. The U.S. Government has helped Russian nuclear power plant (NPP) personnel complete and implement management and operational control procedures that promote safety through improved operating practices. Russian specialists also have been trained to develop symptom-based emergency operating instructions that promote safety through improved accident mitigation strategies. Key components were delivered in FY 1997 for the Kola and Kalinin full-scope simulators. Simulators, which mimic reactor operations, are used to train NPP staff. With U.S. Government support, Russia has established a successful nuclear training center that employs the Systematic Approach to Training (a method used at all U.S. NPPs) at the Balakovo NPP. The U.S. Government also continues to provide equipment and technology that reduce the risk from a variety of causes at Russia's NPPs.

The U.S. Government transferred the technology for manufacturing fire doors to the Russian firm Atomremmash, which subsequently delivered 400 fire doors to the Smolensk NPP in December 1996. U.S. and Russian specialists established methodologies for performing fire hazard analyses at Soviet-designed reactors. Trained by U.S. experts, Russian analysts now are performing a fire hazards analysis at Smolensk Unit 3. Protective clothing, spray hose nozzles, and 80 self-contained breathing units were provided to Smolensk NPP firefighters.

Other notable accomplishments in the area of nuclear safety included augmented training for reactor operators, installation of safety maintenance equipment, development and implementation of training courses, and delivery to Novovoronezh of a **safety parameter display system**. The Kola and Kursk NPPs have been provided reliable backup electrical power systems to ensure that power is available during an emergency. The Kursk plant also has been provided ultrasonic test equipment to detect flaws in critical piping and a safety parameter display system that enables the staff to quickly assess abnormal conditions and take corrective actions. U.S. and Russian specialists completed a four-year project that substantially reduced leaks in the Kola Unit 2 confinement system. The safety parameter display system is scheduled to be in operation at the Novovoronezh

NPP by April 1998. DOE provided valve-seat resurfacing equipment, pipe lathe/weld preparation machines, and vibration monitoring and shaft alignment systems to significantly improve safety maintenance at the Kursk, Leningrad and Smolensk NPPs.

With U.S. Government support, instructors at the Balakovo training center developed and conducted 12 job-specific maintenance and operations courses, as well as six general courses on safety-related topics. More than 1,600 workers from Russian NPPs have already been trained at the center. During FY 1998, U.S.-trained instructors from the training center will train instructors at other NPPs in Russia.

In FY 1998, these specialists, with U.S. Government support, will perform analyses needed to justify the draft emergency operating instructions for each of the four major models of Soviet-designed reactors in Russia. The Novovoronezh NPP staff has drafted a complete set of 29 symptom-based emergency operating instructions and has implemented 22 of them. The U.S. Government also provided PRONET software and training to personnel at the Russian institute VNIIAES and three Russian NPPs. The software is used to generate and manage updates to emergency operating instructions and other procedures.

In-depth **safety assessments** are under way at the Kola, Leningrad and Novovoronezh NPPs. These assessments provide a documented safety design basis and plant risk profile to support safe plant operation. They also provide technical justification for proceeding with appropriate safety upgrades. Initial results from the probabilistic and deterministic studies performed as part of the assessments are expected by the end of FY 1998. All assessments under way are scheduled to be completed by the end of FY 2000. U.S. Government support for developing the safety analysis infrastructure at Soviet-designed reactors has included introductory safety analysis training to over 30 technical specialists from Russian NPPs and technical support organizations.

The **U.S. Nuclear Regulatory Commission (NRC)** continued its efforts in FY 1997 to strengthen the nuclear safety and regulatory authorities of the NIS countries that operate Soviet-designed nuclear reactors. Assistance activities in support of Russia's federal nuclear and radiation safety authority (GosAtomNadzor or GAN) have included licensing of nuclear power plants, development of a legislative basis for nuclear regulation and legal enforcement, development of an emergency response capability, development of an analytical simulator and a regulatory training program and center, and other safety-related activities. In addition, the NRC worked with GAN in FY 1997 to develop a probabilistic risk assessment of the Kalinin nuclear power plant. This assessment seeks to identify design and operational vulnerabilities, thus helping to reduce the risk of a reactor core accident.

Cooperative programs in material protection, control and accounting (MPC&A) were also under way with GAN. In FY 1997, a number of agreements were signed which will allow the cores of Russia's three remaining weapons-grade plutonium production reactors to be converted. (see Security Programs section below)

Also in FY 1997, cooperation began with Russia's Federal Energy Commission (FEC) with the goal of helping it develop and implement transparent, consistent and fair regulations for the country's oil transportation sector. In August, a workshop sponsored by USAID, the U.S. Federal Energy Regulatory Commission, the U.S. Energy Association and the U.S. Department of Energy gave FEC representatives an opportunity to examine the structure, operation and regulation of the U.S. oil transportation sector.

Security Programs

The **U.S. Defense Department's Cooperative Threat Reduction (CTR or Nunn-Lugar) Program** has invested approximately \$1 billion in Russia since 1992 to help accelerate strategic offensive arms reductions pursuant to the START Treaties, increase the security of nuclear warheads in transit or storage, and help "jump start" Russian chemical weapons destruction. The Russian Duma ratified the Chemical Weapons Convention in 1997, adding momentum to these CTR efforts. In FY 1997, the number of CTR agreements expanded to include a new joint effort to speed the elimination of SS-18 intercontinental ballistic missiles; the elimination of up to 50 SS-20 sea-launched ballistic missiles; and the building of a technical training base to train personnel in the use of up-to-date systems for protecting nuclear weapons storage facilities. CTR assistance continued to be a major factor in Russia's ability to achieve its Start I Treaty-mandated reductions and to provide capabilities to support Start II and Start III anticipated reductions. In October, the first 30 of 50 sets of fences, sensors and entry-point control systems were provided to the Russian Ministry of Defense to enable it to upgrade security at its nuclear weapons storage facilities. Earlier in the year, the Department of Defense delivered a suite of computers and software for evaluation by the Ministry of Defense that would provide near-real-time accounting

for nuclear weapons. This program is continuing into FY 1998, with additional training and deliveries scheduled to take place.

In the chemical weapons area, the CTR Program made significant progress toward the construction of a central analytical laboratory in Moscow that will help Russia eliminate its chemical weapons stockpile, the total project cost being an estimated \$30 million. The largest U.S.-Russian CTR project in FY 1997 was a \$136.5 million project for the design and construction of a chemical weapons elimination facility in the Kurgan Region. Preliminary environmental studies were under way and the first public hearings were conducted in July with very positive results. Although there will be many hurdles before this project is successfully completed, the first permanent U.S. advisor to support the project moved to the Kurgan Region in September, and preliminary construction efforts could begin as early as FY 1998, with construction of the weapons-destruction facility itself beginning in early 1999. CTR funds also supported an effort through the National Academy of Sciences to begin a dialogue with Russian biological weapons experts, with the goal of cooperating to combat diseases.

Cooperation between the United States and Russia in the area of fissile material control and accounting continued to progress in FY 1997. Under the **Energy Department's Material Protection, Control and Accounting (MPC&A) Program**, joint projects were under way at 22 Ministry of Atomic Energy (MinAtom) facilities. MPC&A cooperation was expanded with the Russian Navy. Other successful bilateral programs with nonproliferation goals included the **International Science and Technology Center (ISTC)**, **DOE's Initiatives for Proliferation Prevention**, and cooperation in the area of transportation security.

Social Sector and Humanitarian Programs

In early August, the Russian Government announced a new concept for health care and medical science development in Russia, which included various elements recommended by **USAID's health program** advisors, including an increased focus on preventive health services, improvements in cost-effectiveness and health outcomes, improvements in budget allocation, and more rational expectations for the country's nascent health insurance system. USAID entered into a memorandum of understanding with three popularly elected *oblast* (regional) administrations in Moscow, Kaluga and Novgorod to undertake pilot work on improving the quality and utilization of the regions' health services.

A highlight of this year's Gore-Chernomyrdin Health Committee meeting was the premiere of four high-quality public service television announcements on family planning, prepared under the direction of Russia's Ministry of Health. By the end of FY 1997, these announcements, combined with USAID assistance aimed at improving accessibility to safe and efficacious family planning methods through the public health system and private pharmacies, were already credited with declines in abortion rates throughout Russia, and especially in the six areas where **USAID-funded reproductive health pilot programs** were being implemented. Almost 2,000 service providers in the six *oblasts* were trained in modern contraceptive technology and/or clinical and counseling skills, and some 2.6 million condoms were distributed through the Social Marketing Program in Yekaterinburg.

USDA's Food for Progress program was active in Russia during FY 1997. Using commodities bought by its Commodity Credit Corporation, USDA shipped over \$16 million (24,800 metric tons) of soybean meal, wheat flour, corn, and vegetable oil to Russia. The commodities were monetized by U.S. private voluntary organizations (PVOs), which then used the funds to assist small, privatized food processing companies in Russia, or distributed free of charge under direct feeding programs.

The Eurasia Foundation

As of the end of FY 1997, the Eurasia Foundation had awarded over 1,000 grants in Russia totaling more than \$23.5 million in support of innovative initiatives in business development, business education and management training, economic education and research, public administration and local government reform, NGO development, rule of law, and media and electronic communications. Approximately 60 percent of these grants were made by Eurasia's field offices in Moscow, Saratov and Vladivostok. The Foundation actively sought private donor participation in its programs through cooperative funding and direct contributions. (see also Eurasia Foundation section in Part III)

Implementation Problems

In FY 1997, organizations providing U.S. Government-funded assistance in Russia continued to encounter local taxation and customs problems which hindered the implementation of these assistance programs. The U.S. Government sought and received some limited support from the Russian Government to resolve these problems. In April 1997, First Deputy Prime Minister Chubays extended the Pickering-Panskov Agreement, which provided for the continued suspension, pending the passage of legislation addressing this issue, of all efforts to collect taxes and customs duties on U.S. Government assistance. The extension of this agreement proved helpful, but did not resolve all pending disputes over taxation, especially those involving regional authorities who tended to disregard instructions from Moscow. Pending legislation on the taxation of assistance, which would resolve many but not all of the U.S. Government's concerns, was passed by the State Duma in its second reading but rejected in its third reading, and was sent back for a limited redraft. It is anticipated that this legislation could be passed in early 1998.

The Commerce Department's U.S. & Foreign Commercial Service reported that taxation and customs issues continued to hinder the activities of its American Business Centers (ABCs), specifically the ABCs in Yuzhno-Sakhalinsk and Novosibirsk. The Customs Committee in Yuzhno-Sakhalinsk threatened to impound all of the ABC's office furniture and equipment unless the ABC could "prove" its duty-exempt status. In Novosibirsk, the Customs Committee threatened to permanently impound two of the Novosibirsk ABC's vehicles in November, unless the ABC paid over \$40,000 in duties from which it was rightfully exempt.

Cumbersome visa application and renewal procedures continued to hinder the work of Peace Corps volunteers in Russia in FY 1997. (see Peace Corps section above)

Preview of FY 1998 Programs

In FY 1998, U.S. Government assistance to Russia will increasingly emphasize the Partnership for Freedom strategy of shifting of our assistance program away from technical assistance and towards the promotion of economic growth and grassroots linkages between the United States and Russia. Under the Partnership for Freedom, a large proportion of our assistance funds will be devoted to activities designed to increase the level of trade and investment in Russia, particularly in Russia's regions; and to activities aimed at strengthening Russia's civil society, primarily by linking non-government organizations, civic groups, managers, businesspeople, and many other individual citizens with counterparts in the United States.

A centerpiece of the FY 1998 program will be the **Regional Investment Initiative (RII)**, which was launched in FY 1997 (see above). Four regions of Russia, selected on the basis of a proven commitment to economic reforms and investment-friendly policies, will be utilized as models of what can be achieved through an intensive effort to improve the investment climate. By the middle of FY 1998, packages of technical cooperation, investment promotion, and partnership programs will be in place in Novgorod *Oblast*, the Russian Far East, and Samara *Oblast*. In Novgorod, key programs begun during FY 1997 include assistance in developing land and real estate markets, providing debt and equity financing to small and medium-sized businesses, developing business and law degree programs at a local university through a partnership with an American university, helping the region to develop its tourism potential, and creating a website to promote investor interest. In the Russian Far East, where the program will get under way in early 1998, important program components will include investment and finance advice and training for regional governments; university partnerships to support business and law degree programs, as well as continuing education for working business people; grant programs for non-governmental business associations; a commercial bank loan guarantee program; a pilot effort to introduce leasing as a financing mechanism; and various efforts to promote environmentally sustainable development and energy efficiency. A fourth RII region will be announced in FY 1998, with program activities to commence there in FY 1999. The Commerce Department's American Business Centers (ABCs) will cooperate with the RII coordinators in Novgorod and Khabarovsk and will provide office space and other facilities to them at cost. In addition, a new ABC will be established in Samara during the first half of 1998, while the ABCs in St. Petersburg and Vladivostok will be merged with the Commerce Department's U.S. and Foreign Commercial Service facilities in those cities.

In FY 1998 and beyond, USAID will continue to support the dissemination and replication of successful environmental activities through its "roll-out" project, which will help Russians identify the best environmental methodologies, practices and technologies and will replicate U.S. Government-funded environmental technical cooperation programs in other areas of Russia. Also in FY 1998, USAID plans to establish four women's

wellness centers to serve as clinics and education centers. Each center will provide ambulatory care services to approximately 4,000 women annually. The first USAID-funded infection-control training center is scheduled to open in St. Petersburg in March.

TAJIKISTAN

Political Overview

On June 27, President Rahmonov and opposition leader Nuri signed a peace accord, opening a new phase in Tajikistan's history and formally ending a civil war that began in 1992. It will be up to both sides to work together to implement this peace agreement in 1998. The body responsible for much of this implementation effort, the Commission on National Reconciliation (CNR), met first in Moscow in July, but did not begin to function in earnest until its chairman, opposition leader Nuri, arrived in Dushanbe on September 11. Even so, significant progress had been achieved by the end of FY 1997. Most of the Tajik refugees who had fled to Afghanistan returned home—approximately 8,000 of a total 13,000—and the remainder were expected back by the end of December. There were prisoner-of-war exchanges, and opposition fighters began to be registered for planned reintegration into the Tajik army or demobilization. The CNR's legal subcommission began work on proposed amendments to the constitution, and parliamentary elections were planned for mid-1998. However, the allocation of 30 percent of government seats to the opposition, as agreed in the accords, proved to be the toughest task, and had not been accomplished as of the end of FY 1997.

Not all Tajiks supported the peace agreement: some regional strongmen on both the government and opposition sides opposed the deal worked out by their leaders. As a result, in August, there were several days of fighting between opposing government factions in and around Dushanbe. On the opposition side, several field commanders claimed they would only take orders from Chairman Nuri's deputy, Turajonzoda, who remained in Tehran. Other Tajiks, notably those from the northern part of the country, felt marginalized in the ongoing peace process. Although no one claimed responsibility for the bombings that took place in the capital, these were assumed to be intended to destabilize the situation, in the hope of derailing the peace process.

Economic Overview

Tajikistan's progress on economic reform faltered in FY 1997. A major setback occurred in February when, in the wake of an international hostage incident, United Nations agency staff and others were evacuated for three months. In the absence of the International Monetary Fund's (IMF) resident representative, the country's macroeconomic stability suffered, and the Tajik ruble, which had hovered at a rate of around 300 per U.S. dollar for most of 1996, fell to almost 1,000 per U.S. dollar. By October, the Government of Tajikistan was again accepting the IMF's advice, and the country's macroeconomic situation made up some lost ground. However, one remaining problem was the slowness of privatization.

Nevertheless, there were hopeful signs in late FY 1997. Shops and markets in Dushanbe were better stocked than at any time since independence. Bread has been continually available since its price was freed in 1996, and wheat production increased significantly. The cotton crop, the country's biggest earner of foreign exchange, was up by approximately 10 to 20 percent over 1996, as a result of increased foreign investment and diminishing state participation in growing, processing, and selling (the latter was partly due to the decaying bureaucracy's lessened capacity to intervene).

Overview of U.S. Government Assistance

In FY 1997, the U.S. Government provided approximately \$38.8 million in assistance to Tajikistan, including \$1.7 million in privately donated, U.S. Government-transported humanitarian commodities. Food assistance accounted for over three-quarters of U.S. Government assistance to Tajikistan. However, some of the private voluntary organizations (PVOs) implementing these food assistance programs have designed innovative programs which enable them to use the commodities in such a way as to facilitate the transition away from humanitarian assistance towards development assistance.

Support of the peace process was the new priority area for U.S. Government assistance to Tajikistan in FY 1997. A \$1 million grant from the State Department's Bureau for Population, Refugees and Migration (PRM) to UNHCR for the rehabilitation of refugee housing was the U.S. Government's first direct contribution to this effort, along with support provided to a United Nations Development Program (UNDP) project in Gharm.

Trade and Investment Programs

In FY 1997, the **Central Asian - American Enterprise Fund (CAAEF)** made eight loans totaling \$730,468 to private businesses in Tajikistan. The USAID-funded Farmer-to-Farmer Program implemented by Winrock and USAID-funded International Executive Service Corps advisors helped Tajik enterprises prepare business plans and loan/equity proposals for the CAAEF, and to act as consultants on post-investment management issues.

Business and Economic Development Programs

Before 1996, the policy environment in Tajikistan was not conducive to concentrated technical assistance in the area of economic restructuring. In the wake of the country's civil war, training and exchange programs were the best mechanisms for Tajiks to observe developments elsewhere and to gain international experience. To encourage reform, USAID engaged with Tajik counterparts on necessary private development measures through training courses and modest, targeted technical assistance. Overall, USAID has sent hundreds of Tajiks to the United States and the other Central Asian countries for short-term training in a variety of areas. In-country training in banking, economic restructuring, and privatization have also been effective in reorienting policy-makers towards possible reform measures. The Tajiks who participated in these programs now form a cadre of reform-minded officials who are taking the lead in crafting, with World Bank and IMF input, long-term economic stabilization and structural adjustment programs for Tajikistan.

In FY 1997, USAID continued to carefully target its limited, short-term technical support and training to maximize their impact on key macroeconomic policy and structural adjustment reforms. For example, a USAID-funded privatization advisor played a crucial role in setting the stage for the larger World Bank-funded privatization effort that is now under way. Similarly, a one-week USAID fiscal training program coordinated with the IMF played a key role in convincing the Tajik Government to delay consideration of a poorly conceived tax code, and to lay the groundwork for the development of a Western-style tax code in 1998. USAID also provided technical assistance to Tajikistan's central bank in an effort to modernize the country's banking sector. This effort, closely coordinated with the IMF resident representative, already appeared to be off to a fast start.

Training and Exchange Programs

USIA: In FY 1997, USIA's high school, undergraduate, and graduate exchange programs continued to promote academic contacts and mutual understanding between Tajikistan and the United States. One Tajik Fulbright Scholar traveled to the United States this academic year, as well as three graduate students, five undergraduates, and 25 high school students. Eighteen Tajik officials participated in USIA's International Visitor (IV) Program, including six parliamentarians who reported benefiting greatly from their program on how the U.S. Congress works, and eleven political activists, who were placed in mixed groups including both government and opposition members (some from officially banned parties) and received training in political party organization. USIA also sent eight Tajiks to the Salzburg Seminar in Austria for programs on teaching English as a foreign language, NGO administration and development, and other topics.

USAID: In FY 1997, the Global Training for Development (GTD) Project provided U.S.-based training to 24 participants, third-country training to 25 participants, and in-country training to more than 100 participants. Seminars and workshops complementing this training were attended by over 1,000 Tajiks. Training areas included NGO leadership and management, judicial reform, epidemiology, pension reform, and business development. USAID's Farmer-to-Farmer Program continued to send Americans with practical skills and academic knowledge to Tajikistan to provide training and practical guidance to the country's agribusiness sector and at agricultural schools.

Other Agencies: Seven Tajik agricultural specialists received short-term, U.S.-based training under USDA's Cochran Fellowship Program in areas ranging from fruit and vegetable processing to agricultural policy. In addition, 14 Tajiks participated in the Commerce Department's Special American Business Internship Training (SABIT) Program in dairy, beverage production, banking, environmental technology, accounting and other fields.

Democracy Programs

The embassy-based **Democracy Fund** administered by the Eurasia Foundation awarded grants totaling \$33,501 to three local organizations in Tajikistan in FY 1997, supporting projects in civic education for returning refugees, youth groups, and the public at large. The Law and Democracy Center, established in Dushanbe by the **USAID-funded American Legal Consortium**, continued its work of translating Tajik laws into English and maintaining a public-access database of legislation from Tajikistan, the United States, Russia, Kyrgyzstan, and Kazakhstan. **Internews**, a USAID grantee, sponsored a number of seminars for independent radio and television stations, and provided training and limited equipment donations as well. Internews was also an active advocate for Tajikistan's independent television stations, who were having difficulty obtaining licenses from the government. Another USAID grantee, **the Counterpart Consortium**, conducted seminars on the establishment of NGOs, fundraising, and the preparation of proposals. The **American Bar Association** used USAID funding to provide a long-term legal advisor to work with judges and other Tajik officials on such issues as an independent judiciary and ethics. In addition, the first-ever poll to ask the citizens of Tajikistan their opinions on issues related to democracy and the market economy was carried out by the **International Foundation for Election Systems (IFES)** with USAID funding. The resulting data sparked lively debate among government officials, politicians, academics, journalists, and others who had not had access to this type of information before.

Energy and Environmental Programs

In FY 1997, USAID promoted the integrated development of electric power systems in the Central Asian region, and Tajikistan continued to participate in USAID's regional energy and environment programs, which were held in Riga, Almaty, Bishkek and Tashkent.

Social-Sector and Humanitarian Programs

In FY 1997, Tajikistan was still not fully self-sufficient in food. To help cover the country's food deficit, **the U.S. Department of Agriculture (USDA)**, by far the largest donor of U.S. Government assistance in Tajikistan, donated 35,000 metric tons of wheat to the Tajik Government under a \$10 million Food for Progress grant. This wheat was then sold on the local market, and the proceeds were used to promote the government's market reform efforts, in particular the establishment of a functional banking system which will be able to provide much-needed agricultural credit to the country's new private farmers. USAID donated an additional 7,000 metric tons of emergency commodities from USDA (6,650 metric tons of wheat flour and 350 metric tons of vegetable oil, worth an estimated \$4.3 million, including transport) to the United Nations World Food Program for distribution to Tajikistan's most vulnerable groups.

USDA also provided commodity grants worth a total of \$13.7 million to four U.S. private voluntary organizations (PVOs): **CARE, Mercy Corps International, Save the Children (U.S.), and the Aga Khan Foundation.** These organizations directly distributed the commodities to vulnerable groups and also used the commodities to support innovative projects designed to help those in need, while beginning the transition from humanitarian to development assistance. For example, Save the Children (U.S.) continued to help reconstruct houses destroyed during the civil war, using USDA commodities for food-for-work labor and materials funded by UNHCR and the **State Department Bureau of Population, Refugees and Migration (PRM).** Save the Children also used USDA food commodities for school-lunch programs which kept both students and inadequately paid teachers (their average salary is around \$5 per month) in school. Similarly, Mercy Corps used the proceeds from the sale of USDA commodities and USAID funding to run a small-loan program for farmers. Those receiving the loans agreed to repay them in kind, directly to local institutions such as orphanages or hospitals. Thus, U.S. Government humanitarian assistance not only benefited vulnerable groups, but also provided much-needed and otherwise virtually unavailable financial support to Tajikistan's private farmers. Meanwhile, in addition to its extensive direct distribution program, CARE International used USAID funding to help an association of 571 small farmers through a multi-year project to increase productivity, reduce the cost of inputs, and expand their market options.

With USAID funding, **the International Federation of the Red Cross and Red Crescent (IFRC)** established ten canteens, which provided hot meals to some 4,000 pensioners and street children in Dushanbe and elsewhere. In addition, the Aga Khan Foundation continued to promote the long-term development of the remote Gorno Badakhshan region of Tajikistan and reduce its dependence on humanitarian assistance by helping private farmers increase their wheat and potato production. As a result, their yields increased significantly.

Health Programs

The **USAID-funded hospital partnership** between the Boulder (Colorado) Community Hospital and the Dushanbe Medical Center continued to achieve results in FY 1997. The medical center has become a center for training and exchange programs for several hundred nurses and other medical personnel from throughout Tajikistan. An entire set of intensive-care equipment was sent to the center, and the center's staff were trained in its use.

USAID also funded an emergency program to fight a typhoid outbreak in Dushanbe, providing technical assistance from the **Centers for Disease Control and Prevention (CDC)** in the areas of epidemiology and sanitation, as well as \$679,000 to the IFRC for a typhoid-prevention public education campaign and for necessary repairs to the city's water supply system. In addition, Save the Children continued a USAID-funded community-based child survival project that provided training and otherwise unavailable medicines to rural clinics in southern Tajikistan.

The Eurasia Foundation

In FY 1997, the Eurasia Foundation awarded a number of grants to Tajik non-governmental organizations (NGOs) in the areas of democratic and economic reform, including the development of independent media, and held seminars for Tajik NGOs on grant management.

Preview of FY 1998 Programs

USAID's budget for Tajikistan will almost double in FY 1998 to around \$10 million, reflecting in part a perception that, with last June's peace accords in the process of being implemented, now is the time to make the greatest impact on the country's future. In FY 1998, the new top priority for U.S. Government assistance to Tajikistan will be supporting the peace process. Programs supporting economic reform will also be a high priority. The shift in emphasis from humanitarian to development assistance will continue wherever possible.

TURKMENISTAN

Political and Economic Overview

President Niyazov and the Cabinet of Ministers continued to exercise strong control over Turkmenistan's political life in FY 1997. The principal political reform this past fiscal year was the opening of the Institute for Democracy and Human Rights in October 1996. Since then, the institute has served as an ombudsman institution for citizens with human rights complaints, conducted investigative tours of prisons and local government offices, organized seminars on human rights and democracy issues, and advised the president on strategies for improving the protection of human rights (especially with respect to the conduct of law enforcement officials) and facilitating democratization.

FY 1997 witnessed the Turkmen Government's implementation of significant agricultural reforms, the beginning of privatization of industrial enterprises, passage of a new oil and gas law aimed at attracting foreign investment, announcement of a tender process for the development of offshore energy resources, and continued adherence to fiscal and monetary policies designed to tame inflation and stabilize the exchange rate. As a result of these efforts, by October 1997, inflation had fallen to a fraction of the 1996 level, and the value of the national currency (the manat) was stable. However, a decline in export revenues due to a poor 1996 cotton harvest and the government's March 1996 decision to suspend gas exports through the Russian pipeline system led to a strong contraction in Turkmenistan's economy. Although most observers were predicting a better cotton harvest in 1997, the continued suspension of gas exports cast a long shadow over prospects for economic growth and over the government's efforts to expand cooperation with the International Monetary Fund (IMF) and World Bank. Moreover, implementation of President Niyazov's February and March decrees on the privatization of industrial enterprises progressed slowly. Nevertheless, a new energy law passed in March established model production-sharing and joint venture agreements and laid the groundwork for the creation of a competent body to negotiate and conclude contracts with foreign energy companies. In the agriculture sector, the Turkmen Government abolished state orders for all goods except cotton and wheat, and turned over to individual farmers a substantial portion of the country's cultivated land on a temporary lease basis—the first stage in the government's plan to eliminate all state orders and to put the agricultural sector firmly in the hands of private farmers.

Overview of U.S. Government Assistance

In FY 1997, the U.S. Government provided approximately \$7.1 million in assistance to Turkmenistan. The U.S. Government responded to Turkmenistan's introduction of economic reforms in FY 1997 by increasing its support for the country's transition to a market economy, which accounted for a significant percentage of overall U.S. Government technical assistance and training. Cooperating closely with the International Monetary Fund (IMF), the World Bank and other donors, USAID placed long-term resident consultants to advise the Turkmen Government in the areas of privatization, budget reform, and trade and investment, with an emphasis on Turkmenistan's accession to the World Trade Organization (WTO). USAID-funded resident advisors also began an intensive effort to assist in the development of implementing rules and regulations for Turkmenistan's oil and gas sector. In the area of democratic reform, the primary attention of the U.S. Government assistance effort was directed towards the Institute for Democracy and Human Rights, as well as civil society development programs, through work with non-governmental and community-based organizations. In addition, USAID's regional initiatives in energy and environment provided funding for projects promoting legal and regulatory reform in the petroleum sector, and addressing related environmental issues.

Trade and Investment Programs

In FY 1997, USAID initiated a trade and investment program designed to inform Turkmen officials about the merits, benefits and requirements for acceding to the World Trade Organization (WTO), and to assist in the preparation and adoption of changes to Turkmenistan's legal and regulatory framework necessary for WTO

accession. The efforts of the USAID-funded long-term resident advisor were supplemented by USAID-funded short- and medium-term expertise.

Central Asian - American Enterprise Fund (CAAEF): The CAAEF and its subsidiary, the Asian Crossroads Loan Company (ACLC), identified several attractive new investment opportunities in Turkmenistan in FY 1997. As of the end of FY 1997, the CAAEF had approved almost \$14 million in direct investment, with an additional \$5.7 million under active consideration. The ACLC's small loan program had the full support of Turkmenistan's banks, government, and business community. In a year-and-a-half of activity, the ACLC approved almost \$2 million in loans.

Under the **Commerce Department's Special American Business Internship Training (SABIT) Program**, five Turkmen participated in programs on topics ranging from financial securities to fruit and vegetable processing.

In response to the Turkmen Government's need for information, the **U.S. Information Agency (USIA)** developed a FREEDOM Support Grant program in which three officials traveled to the United States to learn about international standards in finance, business and trade.

Business and Economic Development Programs

A major objective of U.S. Government assistance to Turkmenistan is the promotion of sustainable, market-oriented economic growth, with maximum access for and participation by American firms. The Government of Turkmenistan requested U.S. Government technical assistance in the areas of budget reform and privatization. USAID responded to this request by cooperating closely with the IMF and placing a resident advisor in the Ministry of Economy and Finance this past summer, as well as by providing short-term expertise and targeted training in the areas of budget reform, planning and analysis. The project was just beginning at the end of FY 1997, but the results of the first months' efforts already signaled a positive response and commitment by mid-level Turkmen officials to the reform measures recommended by the advisors.

USAID also responded jointly with the World Bank and TACIS (the European Union's technical assistance program for the NIS) to the Turkmen Government's request in the area of privatization. After conducting a thorough assessment of the current environment for privatization and private sector development in Turkmenistan and making recommendations to the Turkmen Government, the World Bank looked to the Turkmen Government to make further commitments before starting its assistance program. As of the end of FY 1997, USAID had undertaken an accelerated effort to help the Turkmen Government implement its existing privatization strategy by preparing several medium-sized enterprises for privatization, compiling a database with information on large and small enterprises, and developing a dynamic small-scale auction program. With a highly qualified team on the ground in Turkmenistan, USAID is well situated to provide training and advice to government officials as they decide how to proceed with their high-priority privatization effort. Depending on the results achieved by the current USAID program, and on the Turkmen Government's response to the donors' recommendations, USAID will either continue an aggressive implementation program or reduce its efforts in this area in FY 1998.

Under **USAID's Farmer-to-Farmer Program**, 20 U.S. volunteers participated in 13 projects that directly involved some 650 Turkmen. A large project for the importation, marketing and distribution of frozen poultry will ultimately involve several U.S. volunteers and promises to lead to business opportunities for U.S. companies. Other projects included the expansion and upgrading of a bottling facility, the expansion of a milk production and processing plant, and an assessment of a women's group located in an economically depressed region. The Farmer-to-Farmer Program helped this women's group to network with other women's organizations in Turkmenistan and elsewhere, and plans future activities with the group focusing on business skills and employment opportunities for women.

Training and Exchange Programs

USAID: FY 1997 was a transitional period for USAID training activities in Turkmenistan. The end of the three-year-old NIS Exchanges and Training (NET) Project and the start of its successor project, **Global Training for Development (GTD)**, coincided with a shift in emphasis from broadly focused U.S. study tours to technically focused training, mostly in Turkmenistan or in the other Central Asian countries, in support of ongoing USAID-funded technical assistance programs. Over 300 Turkmen participated in GTD training programs in FY 1997,

almost half of which focused on economic topics. A three-day conference on trade and investment in Central Asia brought together 40 mid- to senior-level officials from the region. Two seminars on national budgeting methodology, one of which was co-sponsored by the United Nations Development Program, were organized in cooperation with the Ministry of Economy and Finance. GTD programs in the area of democratic reform addressed the rule of law, civic participation, and NGO leadership. The Ministry of Health was very appreciative of GTD training activities in the social sector, especially a U.S. study tour on primary health care and a follow-on seminar on family medicine, both of which were cited as having significantly influenced the officials responsible for primary health care policy in Turkmenistan. Women comprised fifty percent of participants in GTD training programs in FY 1997.

Under **USDA's Cochran Fellowship Program**, 11 Turkmen agriculture specialists participated in short-term U.S.-based training programs on agribusiness development, management and marketing.

International Executive Service Corps (IESC): The Ashgabat office of CAAEF/IESC hosted five IESC volunteer executives in Turkmenistan from February through October. With the additional assistance of USAID's Global Training for Development (GTD) Program, the CAAEF's clients and partner banks participated in bank training and accounting sessions which increased their fundamental management and financial analysis skills, thus contributing to the development of private enterprise in Turkmenistan.

United States Information Agency (USIA): USIA's Bradley Secondary School Exchange Program continued to be one of the most popular exchange programs in Turkmenistan in FY 1997, with hundreds of students applying for only 25 slots. Thirteen Turkmen students participated in undergraduate and graduate exchange programs. Eleven Turkmen traveled to the United States on International Visitor and FREEDOM Support Grant programs addressing priority topics such as human rights, civic education, substance abuse, and business and finance. Turkmen participants also benefited from two USIA programs in English language instruction and American studies.

Democracy Programs

In FY 1997, U.S. Government-funded democracy programs in Turkmenistan sought to encourage citizen participation, foster democratic concepts, and expand information flows. The U.S. Government, along with other donors, provided assistance to the **Institute for Democracy and Human Rights (IDHR)**, whose mandate is to foster democratization of the Turkmen state and society and to monitor the protection of human rights. A USIA-sponsored expert on the ombudsman concept advised the IDHR on how to respond to citizen complaints. USAID provided Russian-language legislative databases and provided a grant to a civic education group. In late FY 1997, USAID initiated a substantial program to assist non-governmental organizations (NGOs) through the **Counterpart Consortium**, which provides training and small grants to a wide range of interest groups, and emphasizes cooperation with other donors and host government organizations. In FY 1997, the **Eurasia Foundation** opened an office in Ashgabat. In addition to conducting its own grant program, the Eurasia Foundation administered our embassy-based Democracy Fund small grants program. The embassy's **Democracy Commission** awarded two grants in FY 1997, one for a university journalism program and newspaper, and one for a women's legal advising and training center in one of Turkmenistan's regions.

Energy and Environmental Programs

USAID's energy and environmental programs sought to assist the development of Turkmenistan's energy resources, to support access for U.S. firms to Turkmenistan's oil and gas resources, and to encourage regional cooperation on energy and environmental protection issues. In the key area of oil and gas, USAID-funded long-term technical advisors formally began their work in October on the development of implementing rules and regulations. In FY 1997, USAID-funded seminars and conferences addressed the need for environmental standards for natural resource exploitation, as well as macroeconomic issues associated with economic growth and investment for resource-based economies such as Turkmenistan's. Training activities related to the USAID-funded reverse-osmosis water treatment plant, as well as region-wide cooperation in water management, continued in FY 1997. In addition, Turkmenistan was an active participant in USAID's regional program on electricity contracting and power pooling, which made significant progress toward achievement of regional power agreements.

Social Sector and Humanitarian Programs

The USAID-funded **medical partnership** between the Niyazov Medical Consultative Center in Ashgabat and the Cleveland Clinic continued its exchange and training activities in FY 1997. In March, a related partnership between the Turkmen Health Ministry's Emergency Medical Services Training Center in Ashgabat and the Richmond (Virginia) Ambulance Authority began a program that is providing equipment and extensive training to improve pre-hospital care in Turkmenistan. The USAID-funded **Basic Support for Institutionalizing Child Survival (BASICS) Project** continued immunization activities and developed manuals for immunization managers before concluding its activities in March. The USAID-supported **Centers for Disease Control and Prevention (CDC)** trained health personnel in the use of software to facilitate case-based surveillance of infectious diseases, and produced public health bulletins. A total of 140 Turkmen participated in USAID-funded Global Training for Development (GTD) health sector programs, including a reproductive-health study tour to Turkey that was developed in anticipation of an upcoming contraceptive social marketing project.

Security Programs: In FY 1997, Turkmenistan's Ministry of Defense (MOD) continued its interest in bilateral educational programs with the United States, but showed less interest in active participation in the Partnership for Peace and other multilateral programs. Three English language laboratories were established under the Defense Department's **International Military Education and Training (IMET) Program**, and the Turkmen MOD continued to send military students to IMET English language and professional development courses. The Turkmen MOD also participated in Nevada National Guard-sponsored training in emergency operations and disaster relief in the United States, and in May, it hosted a regional conference on Central Asian security policy and regional stability. In addition, the MOD participated as an observer at two major multilateral Partnership for Peace exercises: Cooperative Nugget in the United States and CENTRASBAT '97 in Kazakhstan and Uzbekistan. As of the end of FY 1997, the Turkmen MOD was in the process of formulating its first **Foreign Military Financing (FMF)** purchase since the signing of the corresponding presidential directive in the spring.

Peace Corps

As of the end of FY 1997, there were 64 Peace Corps volunteers in Turkmenistan: 21 in the health sector (community health, maternal and child health and health education), 40 teaching English as a foreign language (as classroom teachers or teacher trainers), and three in business education. Six community projects were funded through the USAID/Peace Corps Small Projects Assistance (SPA) Program, including an educational resource center and library, computer training projects, and two health care projects. Peace Corps volunteers worked with other U.S. Government-funded programs such as Farmer-to-Farmer, Counterpart Consortium and the CAAEF, as well as other donors, to identify and support Turkmen interested in developing businesses or establishing non-governmental organizations.

Preview of FY 1998 Programs

In FY 1998, U.S. Government-funded assistance programs in Turkmenistan will continue to emphasize technical assistance in the economic and energy sectors, although increased activity in these areas will depend on the Turkmen Government's continued commitment to reform and on its response to assistance currently being provided by foreign donors. USAID is considering the possibility of establishing a U.S.-Turkmen institutional partnership focused on environmental or energy issues. Projects for the social marketing of contraceptives, epidemiology and health surveillance are being finalized. Humanitarian assistance such as medical supplies and equipment, coordinated with the World Bank's health reform activities, could contribute to advancing health reform in Turkmenistan. USAID, USIA and other donors will actively search for opportunities to provide assistance in the area of democratic reform.

UKRAINE

Political and Economic Overview

FY 1997 was a year of milestones in Ukraine: it was the first fiscal year following the adoption of the country's new constitution and the introduction of its new currency, the hryvnia. The year was marked by the signing of a friendship treaty and other agreements between Ukraine and Russia, as the result of which many of their outstanding differences were resolved, and by the signing of important agreements with Belarus, Romania, and Poland. Ukraine continued to strengthen its ties with NATO through the Partnership for Peace, signed a special distinctive charter with NATO, and conducted joint naval exercises with the United States. These steps further solidified Ukraine's independence and provided a solid framework for the country's further economic and political development.

Inflation continued to decline in FY 1997 to an annual level of under 10 percent by the end of the year, interest rates fell substantially, and the hryvnia, which was introduced in 1996, was stable against the U.S. dollar. However, economic reform and public-sector restructuring in Ukraine faltered in FY 1997, and the country's fiscal situation deteriorated significantly. Ukraine continued to be plagued by falling production in the official sector and by the presence of a large and growing underground or "shadow" economy which may account for as much as half of total gross domestic product (GDP). A confusing and burdensome array of tax and licensing regulations, as well as an ineffective commercial law system, encouraged many Ukrainian entrepreneurs to continue to keep their activities "off the books." Foreign investors, as well, confronted a bewildering array of regulations, non-transparent treatment by government authorities, and corruption. A few high-profile investment disputes and general issues with respect to the investment climate hindered the influx of foreign investment into Ukraine.

In early FY 1997, the Ukrainian Government proposed an ambitious program of reforms, including significant tax reform, designed to promote commercial development in the official sector. However, the government was unable to obtain approval of the parliament (the Verkhovna Rada) for most of the program, and had to resubmit more modest tax reform proposals in mid-1997. Government efforts to foster reform of the electric power market and of agriculture also failed to achieve their intended targets. After a slow-down early in the fiscal year, the government accelerated the pace of privatization of medium- and large-scale enterprises under its mass privatization program. Late in FY 1997, a special committee was formed to coordinate proposals to implement deregulation across various sectors of the Ukrainian economy.

Overview of U.S. Government Assistance

In FY 1997, the U.S. Government provided approximately \$373.0 million in assistance to Ukraine, including \$49.4 million in privately donated, U.S. Government-transported humanitarian commodities.

Implementation Problems

Tax and customs authorities at various levels of the Ukrainian Government continued to hinder and delay providers of U.S. Government-funded technical assistance, despite the Ukrainian Government's commitments to resolve these issues. At the local level in particular, demand for the payment of fees was extensive. The status of U.S. Government contractors under the new value-added tax (VAT) system remained unclear, and the Ukrainian Government's requirement for mandatory customs brokers continued to impede both technical assistance providers and investors.

Business Development, Trade and Investment Programs

A key focus of U.S. Government assistance to Ukraine in FY 1997 was large- and small-scale privatization, post-privatization, and agriculture-sector restructuring. In the area of mass privatization, the main objective was to help the Ukrainian Government meet the World Bank target of 8,000 privatized firms by year's end. By October 1997, 7,000 firms were in private hands. The State Property Fund (SPF), the Ukrainian Government's privatization agency, identified 270 giant companies to be offered at auction—an important step in increasing citizen participation in privatization—spurring the pick-up of privatization certificates and introducing attractive shares into the country's securities market. There were several other signs of progress in late FY 1997: the Cabinet of Ministers and the SPF agreed to reduce the former's role in the sale of giant enterprises; the

Government of Ukraine strongly encouraged the SPF to increase its privatization revenues; and the SPF, the International Finance Corporation (IFC) and U.S. Government-funded advisors were moving forward with enterprise preparation plans that will streamline and accelerate privatization.

As of the end of 1997, the U.S. Government-funded **Western NIS Enterprise Fund (WNISEF)** had invested \$43 million in Ukrainian enterprises through its venture capital program, and had provided 50 small and medium-sized enterprises (SMEs) in Ukraine with \$2.5 million in loans. In cooperation with the Ministry of Economy, USAID established a national SME policy task force to develop SME support structures at the national and regional levels. U.S. Government-funded advisors helped establish a self-regulating and self-sustaining Ukrainian Accounting and Auditing Association (UFPA)—the first of its kind in the NIS. At the end of 1997, UFPA had registered 1,280 members or approved applicants.

There were many uncertainties in Ukraine's agricultural policy in FY 1997. With U.S. Government support, the Ukrainian Government drafted decrees pledging an end to government interference in the grain trade and committing the Ukrainian Government to trade on private commodities exchanges established throughout Ukraine with U.S. Government support. While interference by the Government of Ukraine in the country's grain markets appeared to decrease in FY 1997, regional and local authorities continued to wreak havoc on the commodity markets. As a result, private trading companies and foreign suppliers of agricultural inputs were unable to collect their commodities. In October 1997, the Government of Ukraine agreed to privatize all but 90 grain elevators by the end of 1998, and to privatize all state agricultural supply firms through mass privatization. In FY 1997, USAID-funded advisors helped advance the restructuring of 150 large farms and helped accelerate the distribution of 13,600 land and property shares and titles. Advisors also helped form nine new agricultural partnerships, bringing the cumulative number of partnerships established since 1994 to 13. Also with U.S. Government support, 3,900 medium-sized agro-industrial firms had been de-monopolized by the end of FY 1997, out of a total of 6,500 firms privatized to date.

In addition, the **U.S. Trade and Development Agency (TDA)** provided a total of \$975,000 for two feasibility studies in the Ukrainian coal sector: a slurry pond recovery project and a coal-bed methane production project. TDA also provided \$250,000 for a study to prepare an European Bank for Reconstruction and Development (EBRD) railway modernization project.

Economic Development Programs

In FY 1997, the Government of Ukraine made some strides in tax reform with the passage of value-added tax (VAT) and enterprise profit tax (EPT) legislation. USAID, the U.S. Treasury Department, and other donors assisted with the legislative drafting process, and were helping the Ukrainian Government move from enactment to implementation. FY 1997 also marked the opening of Ukraine's National Tax Training Center, established with USAID and Treasury Department support. The Ukrainian State Tax Administration was very receptive to U.S. Government-funded assistance in reforming personal income and property taxes, as well as in drafting a comprehensive tax code with improved enforcement mechanisms.

U.S. Government-funded **assistance to Ukraine's financial sector**, which has been provided since 1994, has concentrated on the country's basic financial infrastructure, in particular on central bank functions and on human capital development. In June 1997, USAID began helping the National Bank of Ukraine (NBU) implement international accounting standards. In August, 42 bank trainers completed a course in basic banking functions sponsored by the U.S. Government and Ukraine's International Management Institute (IMI). Donor coordination in implementing a World Bank financial structural adjustment loan continued in FY 1997.

U.S. Government-funded **capital market development programs** showed significant results in Ukraine in FY 1997. As of the end of the year, Ukraine's over-the-counter trading system (PFTS), which was established with U.S. Government support, listed 200 firms valued at a total of \$3 billion. Because PFTS has adopted well-functioning internal controls, it is the only market in the country attracting foreign brokers to its membership. In December 1997, the PFTS trading volume was \$50 million per month, up from \$2.7 million per month in its first months of trading. By the end of 1997, Ukraine's securities and stock-market supervisory agency (SSMSC), established with U.S. Government support in 1995, collected over 380,000 hryvnia in fines from 1,500 market participants sanctioned for violations, and suspended a securities broker and a registrar. In November 1997, USAID helped SSMSC open a public information center. As of the end of FY 1997, the Center had registered over 450 visitors. In addition, USAID's capital markets advisors provided input into the drafting of Ukraine's

recently enacted national depository system law, as well as into two laws currently under Rada review pertaining to investment funds and the stock market.

U.S. Department of the Treasury: A resident Treasury Department budget advisor, in coordination with a short-term advisor, helped draft an organic budget law and 1998 budget instructions to the Ukrainian Government's ministries, organized training, and supported the actual budget process. The short-term advisor became project director for an International Monetary Fund (IMF)-designed project to develop and expand Ukraine's treasury system, and his work with both staffs greatly increased communication between them in budget execution. The Treasury Department received a request for a banking reform and rehabilitation advisor from Deputy Premier Tyhypko. The Associate Director for Financial Institutions met with the Deputy Premier's staff and discussed possible assistance. A resident advisor will be placed in FY 1998 if terms of reference can be agreed to and a satisfactory counterpart can be identified. A resident government-debt advisor assisted with the development of a primary dealer system, regular auctions, and settlement and clearing operations. In FY 1997, both secondary market activity and foreign participation in the treasury bill market increased dramatically. Ukraine also exceeded its 1997 target for funding the annual budget deficit. In FY 1998, the Treasury Department plans to expand its program by placing resident advisors in both the National Bank of Ukraine (NBU) and the Ministry of Finance. (The advisor to the NBU will assist with monetary policy, while the advisor to the Finance Minister will help build debt management capacity.) In addition, the Treasury Department will assist Ukraine with its planned Eurobond issuance. In addition, a tax-administration advisor continued to work with the State Tax Administration (STA) to improve centralization and restructuring along functional lines. The Treasury Department will also provide technical assistance in curriculum development to Ukraine's National Tax Training Center. A second resident tax-administration advisor arrived in June to work directly with the training center's director. The Treasury Department hired three curriculum-design specialists to work closely with Ukrainian counterparts in the STA to design courses to train the country's 60,000 tax inspectors in all aspects of tax administration. A resident tax-policy advisor arrived in July to work with the Ministry of Finance, the STA and the Tax Code Working Group to assist with the drafting and codification of tax laws.

Training and Exchange Programs

USIA: In FY 1997, over 850 Ukrainians participated in USIA exchange programs. USIA launched its Teaching Excellence Awards program, under which 75 Ukrainian teachers were selected as regional semifinalists, and their schools earned a contribution of educational equipment. Of these semifinalists, 15 were selected as national finalists who then participated in a seven-week summer program in Washington and at the University of Delaware. USIA also introduced a new, six-week community-based exchange program for secondary-school social science teachers and administrators from Ukraine that includes training and internships. In addition to academic exchange programs, USIA also hosted a number of short-term U.S.-based training programs for Ukrainian professionals. Under USIA's FREEDOM Support Grant program, two groups of Ukrainian Supreme Court justices and legal experts revamping their country's criminal code came to the United States to examine the U.S. court system. In addition, USIA conducted a program on the role of women in politics for a group of Ukrainian women. In July, six Ukrainian journalists participated in a program on the U.S. press. The journalists were impressed by the constitutional protection and organizational support of the press in America. The group was deeply moved by the freedom enjoyed by journalists in America, in stark contrast to the governmental pressure, threats and intimidation of the press in Ukraine. Participants returned to their country convinced of the importance of an independent press to the development of an open society. Several members of the group subsequently organized conferences and published articles on their U.S. experiences.

USAID: Through the NIS Exchanges and Training (NET) Project, Global Training for Development (GTD) and other programs, USAID trained 324 Ukrainians in the United States in FY 1997. Of these participants, 42 percent were female, up from 31 percent in FY 1996.

Democracy Programs

In FY 1997, the U.S. Government continued to support democratization and legal reform in Ukraine. In June, Ukraine's civil code passed in its first reading in the Verkhovna Rada (parliament). If enacted, the code will provide the foundation for commercial law in Ukraine. USAID supported **civil code drafting assistance**, and in FY 1998 will advise the Ukrainian Government on effective implementation and enforcement once the code is passed. In April, President Kuchma issued a "Clean Hands" edict that signaled the beginning of a national campaign to combat corruption. The U.S. Government is helping the Ukrainian Government implement its anti-corruption initiatives through a number of U.S. Government-funded democratic and economic reform activities.

The groundbreaking Ukrainian television news program “Vikna,” produced with U.S. Government support, overcame bureaucratic difficulties and went back on the air when a new independent national television network that evolved from a USAID media project started broadcasting in Ukraine earlier this year.

USAID continued to support local government reform by providing capacity-building assistance to the **Ukrainian Association of Cities (UAC)**, which has become the single strongest advocate on behalf of local government reform in Ukraine. In September, USAID embarked on a U.S.-Ukrainian community partnership program that will reach every city in Ukraine with a population of 50,000 to 100,000. In addition to training local government officials in budgeting, housing and communal services, transportation, economic development, and citizen participation, the program will also further develop the UAC's institutional capacity and will establish four regional training centers. USAID's successful public transportation improvement project in Ternopil, which increased the city's bus fleet by 40 percent, was expanded to four additional cities in FY 1997.

Nuclear Safety Programs

In FY 1997, the **U.S. Department of Energy (DOE)** continued its extensive cooperative nuclear safety activities with Ukraine. With DOE support, Ukraine is preparing for the shutdown by 2000 of Chornobyl Unit 3, Chornobyl's last operating unit and implementation of the G-7 Shelter Implementation Plan (see below). Accomplishments in FY 1997 include the establishment of the Chornobyl Center for Nuclear Safety, Radioactive Waste, and Radioecology to address socioeconomic impacts of Chornobyl's closure; provision of initial shelter renovation equipment and worker safety improvements; development of technical strategies for eventual shutdown and deactivation of Chornobyl; expansion of the plant heating system needed to support shutdown and shelter renovation; and implementation of operational safety improvements at Unit 3 to reduce its risk until shutdown. At Ukraine's other nuclear power plants, DOE continued to support further improvements in nuclear safety through improved emergency procedures, improved operator training courses, operator training simulators, safety parameter display systems, the completion of safety analysis reports, fire safety improvements, and improved maintenance of safety-related equipment.

At the June 1997 G-7 Summit in Denver, the G-7 nations agreed to provide \$300 million to support the renovation and replacement of the deteriorating “sarcophagus” which entombs the highly radioactive remains inside Chornobyl's destroyed Unit 4 reactor. The **Shelter Implementation Plan (SIP)**, developed by the G-7 member nations and Ukraine, is designed to support the solution of short and long-term problems associated with the sarcophagus. In November 1997, Vice President Gore and Ukrainian President Kuchma hosted an international pledging conference in New York to enlist international support. At that conference, the U.S. Government pledged \$78 million as its contribution to this endeavor, and has already contributed \$25 million out of this amount directly to the European Bank for Reconstruction and Development (EBRD) for management under the Chornobyl Shelter Fund. The plan details measures to protect workers and the environment, prevent the shelter from collapsing, and construct a new shelter to cover the existing structure. U.S. experts provided the primary technical support for developing the plan. The U.S. Government also began providing equipment and training in four primary areas: radiation dose reduction, nuclear criticality monitoring, dust suppression and industrial safety.

With U.S. Government support, experts at the Chornobyl Center performed a risk assessment of the Chornobyl shelter. This assessment concluded that a negligible risk exists of a serious accident occurring at the Unit 3 reactor in the event the shelter around the ruined Unit 4 reactor collapses. A U.S. Government-provided, satellite-based communications system was installed at the Chornobyl Center. The system gives the Center e-mail and reliable telephone service, and video-conferencing access to the rest of the world. The system also provides access to information databases of partnering technical organizations.

With U.S. Government support, Ukraine has established a successful nuclear training center that employs the Systematic Approach to Training (a method used at all U.S. nuclear power plants) at the Khmelnytsky NPP. At the training center, instructors developed and conducted eight job-specific maintenance and operations courses and three general courses on safety-related topics. More than 1,400 workers from Ukrainian NPPs have been trained at the center. The U.S.-trained instructors from the training center are now working with U.S. experts to train instructors at three other Ukrainian plants—in Rivne, South Ukraine and Zaporizhzhya. An expanded training program is scheduled to be in place at the Chornobyl NPP in FY 1998.

A full-scope simulator was delivered and installed at the Khmelnytsky NPP. The hardware complex for the full scope simulator at the Ukrainian Engineering Technical Center was also delivered and installed. The Engineering Technical Center serves as a prime contractor for developing full-scope simulators in Ukraine. Key components were delivered for the full-scope simulator at South Ukraine Unit 3. An analytical simulator for the Chornobyl NPP is scheduled to be delivered in FY 1998.

The U.S. Government has helped Ukrainian NPP personnel complete and implement management and operational control procedures that promote safety through improved operating practices. Ukrainian specialists have been trained to develop symptom-based emergency operating instructions that promote safety through improved accident mitigation strategies. Ukraine's Zaporizhzhya and Chornobyl NPPs have drafted complete sets of site-specific safety instructions.

The U.S. Government is also providing **safety parameter display systems (SPDSs)** to Chornobyl Unit 3 and all 11 of the operational VVER-1000 reactor units in Ukraine. The Chornobyl Unit 3 SPDS is scheduled to be operational by August 1998. The first two SPDSs at the Zaporizhzhya plant are slated to be operational by August 1998 and at the Khmelnytsky plant by September 1998. The U.S. Government provided pipe lathe/weld preparation equipment, vibration analysis and mechanical shaft alignment equipment, and nondestructive evaluation equipment to significantly improve safety maintenance at the Chornobyl NPP.

In-depth safety assessments are under way at the South Ukraine, Zaporizhzhya, Rivne and Khmelnytsky NPPs. These assessments provide a documented safety-design basis and plant-risk profile to support safe plant operation. They also provide technical justification for proceeding with appropriate safety upgrades. Initial results from the probabilistic and deterministic studies performed as part of the assessments are expected by the end of FY 1998. All assessments under way are scheduled to be completed by the end of FY 2000. U.S. Government support for developing safety analysis infrastructure at Soviet-designed reactors has included introductory safety analysis training for over 20 technical specialists from Ukrainian NPPs and technical support organizations.

With U.S. Government support, technology for manufacturing fire doors was transferred to the Ukrainian firm Askenn Limited, which subsequently delivered 125 fire doors to the Zaporizhzhya NPP and 250 fire doors to the Chornobyl NPP. U.S. and Ukrainian specialists established methodologies for performing fire-hazard analyses at Soviet-designed reactors. Ukrainian analysts, trained by U.S. experts, now have the capability to perform fire hazards analyses for their NPPs. The Zaporizhzhya NPP has received fire-retardant materials to coat electrical cables and the room-to-room penetrations through which the cables pass. The plant also has received fire-brigade gear and fire and smoke detectors.

In FY 1997 the **U.S. Nuclear Regulatory Commission (NRC)** completed work on the VVER 1000 model for the analytical simulator which will be operational in early 1998. With NRC assistance, Ukraine's Nuclear Regulatory Authority (NRA) completed the first phase of the emergency crisis response facility for handling accidents at any of Ukraine's nuclear power plants. As a part of this program, the NRA was assisted in developing an integrated approach of handling accident scenarios on the analytical simulator to the emergency response center. During the year, the NRC helped establish the regulatory training program for NRA, assisted in the development of a system for NRA to conduct safety analysis, and completed setting up a computer-based network system for NRA personnel. The NRC continues to assist with joint inspection activity planning and will be hosting NRA representatives at U.S. nuclear plants.

Energy Programs

USAID's energy program in Ukraine focused on power-sector restructuring and on improving energy production and conservation. With U.S. Government support, Ukraine's wholesale electricity market began operation in early 1997, and by the end of the year, there were four generating companies in competition for the wholesale market, and 27 firms distributing and selling electricity to consumers. USAID also helped establish a National Electricity Regulatory Commission (NERC) to oversee fair competition among the newly created companies and to ensure reasonable tariffs for customers and producers.

Environmental Programs

In 1997 the **U.S. Environmental Protection Agency (EPA)** delivered a \$1 million state-of-the-art mobile radio-ecological laboratory to the Ministry of Environment and Nuclear Safety to monitor contamination at nuclear

power plants, uranium mines and the city of Slavutych, near Chornobyl. EPA also completed the “roll-out” of the Kaniv Reservoir Assessment to the Dnipro Estuary, delivered environmental education materials in partnership with the Peace Corps, produced ecological television programs, continued technical assistance in national pesticide management and conducted an environmental assessment of oil field development in Ivano-Frankivsk. EPA continued to help Ukraine establish a Regional Environmental Center in Kiev. The Center, which is slated to open in 1998, will facilitate public participation in environmental decision-making and help promote public awareness of environmental issues. Similar centers are being started in Moldova, Georgia and Russia.

The U.S. Government also continued to support the development, coordination and operation of the **Ukraine Council and Working Group to Promote Sustainable Development**. The working group’s demonstration projects addressed areas including urban water, agriculture, industry, energy efficiency, environmentally sound business development, and biodiversity. The working group succeeded in contributing environmentally sound amendments to Ukraine’s tax code, which was enacted in May. In FY 1997, USAID completed work on the first phase of the Lviv-Pasichna Vodokanal Project, as a result of which 35,000 Pasichna residents began receiving 12 hours of water per day, up from zero to three hours previously. Additional U.S. Government-funded improvements to the Vodokanal are under way. USAID supported the production of compact water-purification units designed to provide cost-effective potable water. In FY 1997, two such units were installed in hospitals in Kiev and Zhytomyr, with an additional 40 units planned for other sites. USAID also supported 18 waste-management/energy-conservation demonstration projects at 10 enterprises in Donetsk and Dnipropetrovsk, resulting in \$3.4 million in annual savings, drastic reductions in natural gas usage, and reduced ammonia and air pollutant emissions. The U.S. Government, in cooperation with its Ukrainian counterparts and the European Union’s technical assistance program for the NIS (TACIS), initiated an economic development initiative in the Slavutych region of Ukraine to reduce the social impact of the closing of the Chornobyl nuclear power plant in 2000.

Security Programs

Through the **U.S. Defense Department’s Cooperative Threat Reduction (CTR) Program**, the U.S. Government helped Ukraine become a nuclear weapons-free state, and is helping Ukraine fulfill other arms control commitments. CTR assistance is provided to facilitate START I implementation and to deactivate SS-19 and SS-24 missiles. CTR assistance resulted in the elimination of 98 SS-19 silos and 57 SS-19 missiles and the completion of 412 apartments in for demobilizing Strategic Rocket Forces (SRF) Officers. The CTR Program provided equipment, related training, and materials for Ukrainian emergency response teams. With warheads now removed to Russia, the program helps Ukraine maintain its emergency response capability in support of other CTR objectives, including non-weapons nuclear incidents.

In FY 1997, the **Science and Technology Center in Ukraine (STCU)** completed its second year of operation, and its first year with a full complement of staff and a fully equipped headquarters building in downtown Kiev. By the end of FY 1997, the STCU had funded 122 projects across Ukraine, valued at \$14.3 million and employing over 2,200 former Soviet weapon scientists, as well as substantial numbers of other technical and support personnel. The STCU’s success is now leading to an expansion of its membership.

Social Sector and Humanitarian Assistance

In partnership with U.S. and Ukrainian NGOs, USAID continued to focus on assisting Ukraine’s most vulnerable citizens through programs in such areas as the development of social service NGOs, housing, health, and emergency humanitarian assistance. Since 1996, the U.S. Government has provided over \$9 million in clothing and supplies to 280 Ukrainian orphanages and boarding homes. To date, over \$30 million in excess Defense Department supplies have been distributed to vulnerable groups across Ukraine, primarily through local NGOs. Also in 1997, the U.S. Government transported over \$650,000 in disaster relief to victims of a landslide in Dnipropetrovsk landslide and a flood in Kolomyia.

USAID’s health-sector program in Ukraine had a number of notable successes in FY 1997. Pioneering neonatal resuscitation and nursing education centers—the first of their kind in the NIS—opened in Lviv and Odesa, and were being replicated in several other cities. USAID continued to help combat breast cancer in the Chornobyl region, provide reproductive health education, and train health personnel in primary care and infectious disease

control. USAID also provided an extensive number of vaccines and other essential supplies to combat the diphtheria epidemic in Ukraine.

In October, USAID helped established national data centers providing information on housing subsidies (using 455 computers previously provided by USAID), and transferred management of its housing assistance activities from a U.S. contractor to an all-Ukrainian NGO, the Housing and Municipal Reform Service Center (HMRSC).

In March, USAID launched a new initiative to develop sustainable Ukrainian NGOs capable of providing social services to vulnerable groups. Almost half of this program's resources are targeted at rural communities. Some 20 small grants were awarded to Ukrainian NGOs, and more than 100 NGOs received training in NGO management and sustainability.

The Eurasia Foundation

In FY 1997, the Eurasia Foundation awarded 116 grants totaling \$2.3 million to Ukrainian NGOs in areas including business development, education, and management training; economic education and research; electronic communications; media; NGO development; public administration; and the rule of law.

Preview of FY 1998 Programs

U.S. Government assistance to Ukraine will continue to focus on achieving the program's economic, social, and democratic objectives for Ukraine. Increasingly, the emphasis of privatization programs will be on post-privatization support to ensure sustainable enterprise growth. U.S. Government-funded programs will also focus on the development of small and medium-sized enterprises (SMEs), and will seek to leverage the success of SME initiatives in Poland by promoting Polish-Ukrainian partnerships. In the area of democratic reform, attention will focus on training judges and other legal professionals in anticipation of the enactment of the civil code, helping the Ukrainian Government draft a civil procedural code, administrative law reform, helping the Ukrainian Government implement President Kuchma's "Clean Hands" anti-corruption initiative, and supporting local government reform through U.S.-Ukrainian community-based partnerships.

To improve privatized Ukrainian companies' prospects for long-term competitiveness, the U.S. Government will continue to provide critically needed assistance in operational and financial restructuring. A new initiative scheduled to begin in January 1998 will focus on ownership consolidation, the protection of ownership rights, enterprise restructuring, accounting reform, the facilitation of bankruptcy proceedings, and ongoing support for the Ukrainian Government's policy reforms, including simplified tax structures, registration procedures and licensing requirements, macro-economic stabilization, and improved customs and bankruptcy laws and procedures.

As part of the Partnership for Freedom initiative in FY 1998, both USAID and USIA will provide increased support for U.S.-Ukrainian partnerships in support of democratic and economic transition.

UZBEKISTAN

Political and Economic Overview

Uzbekistan remained a highly centralized state in FY 1997, which, like most of its Central Asian neighbors, was moving ahead only sparingly in the area of democratic reform. U.S. Government assistance programs sought to encourage democratization by helping lay the foundation for democratic institutions. The highlight of Uzbekistan's progress toward democracy in FY 1997 was the establishment of a human rights ombudsman, which provided a legislative base to help ensure that the rights of individuals will be respected in the future. A second important step forward was the strengthening of the independence of Uzbekistan's judiciary through the establishment of independent associations of lawyers and judges. While these are welcome moves towards the decentralization of political power, the Government of Uzbekistan missed several other opportunities to move forward on democratic reform. For example, the registration applications of two human-rights NGOs, as well as a new draft law on NGOs, continued to languish in the Ministry of Justice. Similarly, the Uzbek Government did not display a commitment to freedom of the press or freedom of expression. There was also ample room for progress on human rights, as international and domestic human rights groups continued to report the existence of political prisoners and government crackdowns against unofficial Islamic activists.

The Uzbek Government's progress on economic reform was similarly fitful. On the positive side, the Uzbekistani Government auctioned off 300 large and medium-sized enterprises to investment funds, thereby creating basic building blocks for the development of capital markets. The government also projected a drop in the country's budget deficit from 3.5 percent of GDP in 1996 to 3.0 percent in 1997. Furthermore, inflation dropped sharply during the latter half of FY 1997, thanks to the government's tight monetary policy in the wake of a sharp increase in inflation to 120 percent during the first part of FY 1997. On the negative side, the Government of Uzbekistan imposed restrictions on access to foreign currency during fall 1996 that severely hampered both economic reform and foreign investment in Uzbekistan. As a result, the relative stability of Uzbekistan's currency, the soum, dissolved in late 1996, with the soum losing half of its value (in relation to the dollar) according to official exchange rates and nearly three-fourths of its value on the black market.

Overview of U.S. Government Assistance

In FY 1997, the U.S. Government provided approximately \$39.6 million in assistance to Uzbekistan, including \$22.7 million in privately donated, U.S. Government-transported humanitarian commodities. U.S. Government-funded assistance continued to focus on creating conditions that encourage the transition to a market economy and democratic society. FY 1997 saw a significant expansion in programs aimed at creating the legal and regulatory environment necessary for the development of a private sector, and efforts to foster judicial reform began to bear fruit. U.S. Government-funded activities aimed at environmental problems and mitigation of the Aral Sea disaster focused more narrowly on specific issues relating to the management of regional water resources—issues that, in part, initially caused the problem. Because family planning training programs appear to have succeeded in reducing abortion rates and the Government of Uzbekistan is now interested in systemic health reform, the focus of USAID's assistance efforts began shifting from the former to the latter. USAID-funded assistance in the energy sector was significantly augmented by additional technical assistance and training in electric power, as well as in oil and gas development. Training and exchanges of all types remain central to the long-term prospects for reform in Uzbekistan. By working in areas in which the government was willing to move forward, U.S. Government-funded assistance programs made progress in FY 1997 which, while slow and incremental, was measurable.

Trade and Investment Programs

USAID-funded trade and investment advisors, who began working in Uzbekistan in spring 1997, and their Uzbek Government counterparts finished drafting a memorandum of trade regime which, after final Uzbek Government clearances, will be sent to the World Trade Organization (WTO) to initiate the accession process. The advisors also helped the government prepare and enact a new customs code and tariff rate system, as well as a new government procurement law.

Business and Economic Development Programs

Uzbekistan's new tax code, which was drafted with U.S. Government-funded assistance, was clearly a step forward despite its flaws, and was only the third such tax code enacted in the NIS. Improved tax administration and computerization resulted in improved collections. A conversion program for budget classifications was completed in the Ministry of Finance, permitting it to produce reports using International Monetary Fund (IMF) budget classifications. With the help of U.S. Government-funded advisors, drafts of a new state financial procedures (budget) law and a treasury law were completed and required only final review and enactment by the Uzbek Government. Based on recommendations made by USAID-funded advisors, the Government of Uzbekistan committed itself to overhauling its unsustainable pension system. A USAID-funded advisor helped Uzbekistan's central bank install a modern on-site supervision system, and initiated a training program that will lead to the certification of 60 inspectors. Because of convertibility problems, the **Central Asian – American Enterprise Fund (CAAEF)** found it necessary to limit new investments and lending to projects which would earn foreign exchange. As a result, no large investments or loans were approved this past year. Fifteen volunteers under **USAID's Farmer-to-Farmer (FTF) Program** implemented by Winrock promoted the formation of credit unions and assisted agribusinesses, while 14 FTF volunteers placed by the International Executive Service Corps (IESC) assisted Uzbek entrepreneurs in such diverse areas as producing furniture, electrical contracting, banking and running a private medical practice.

Training and Exchange Programs

Under **USAID's Global Training for Development (GTD) Project**, which replaced the NIS Exchanges and Training (NET) Project in FY 1997, 1,500 Uzbeks received short-term training in the United States, Uzbekistan or in third countries. Topics addressed by GTD training programs ranged from tax administration to NGO leadership. As promised, the Uzbek Government funded the travel costs of government participants in these programs. The **Commerce Department's Special American Business Internship Training (SABIT) Program** brought 18 Uzbeks to the United States for 10 different programs in such areas as food processing, telecommunications, oil and gas clean-up and financial services. The **U.S. Information Agency (USIA)** sent 12 Uzbek participants to the United States under six professional exchange programs, a majority of which were in the areas of media and journalism. Three Uzbek Fulbright Scholars traveled to the United States, and four U.S. Fulbright Scholars finished their programs in Uzbekistan.

Democracy and Governance Programs

In FY 1997, USAID-funded programs supported NGO development in Uzbekistan by awarding grants and providing training to NGOs in such basic topics as proposal writing, management and media relations—this approach was evaluated and found to be quite successful. Twenty-two grants totaling \$87,788 were awarded, and a total of 433 people from 278 NGOs participated in USAID-funded training courses in FY 1997. A second Goodwill store was opened in Uzbekistan, and both achieved used-clothing sales sufficient to indicate that sustainability is possible. USAID support ended in June, but the partnership between the local Goodwill association and Indiana Goodwill is continuing. Efforts to build a partnership between the Ferghana Private Farmers' Association and the Kentucky Farm Bureau were less successful: the inequality in levels of development of the two partners limited the potential benefits to the U.S. partner.

The **American Bar Association's** USAID-funded **Central and East European Law Initiative (ABA/CEELI)** achieved a number of striking successes in Uzbekistan in FY 1997. With ABA/CEELI's help, independent associations of advocates and judges were established, reflecting high-level government support for the establishment of an independent judiciary. Legislative reviews resulted in the improvement of a public health law and the addition of provisions to a law on advocacy and a law on notaries legalizing the private practice of law and independent notarial services, respectively. Looking towards 1999, efforts in the area of election reform implemented by the USAID-funded **International Foundation for Election Systems (IFES)** began with the conducting of a public opinion poll of voter knowledge and attitudes and an analysis of Uzbekistan's election law and procedures. In addition, some 48 small independent television stations participated in one or more workshops sponsored by the USAID-funded Internews network.

USIA supported the teaching of English in Uzbekistan by placing four instructors and establishing an English language center. USIA's Internet Access and Training Program (IATP) got under way in FY 1997, and several government and human rights organizations were provided with the equipment needed to get on-line.

Energy and Environmental Programs

USAID-funded technical assistance in oil and gas development began with the arrival of an advisor and the implementation of training courses on international oil and gas contracting. USAID also helped the Uzbek Government deal with some of the macroeconomic issues it is facing which are related to the use of increasing revenues from petroleum resources. USAID-funded advisors provided technical assistance on power pooling and international power contracting. This assistance is facilitating the negotiation of an agreement on electric power sharing among the five Central Asian countries. USAID will continue to provide technical assistance and facilitate further progress in this direction in FY 1998.

The installation of USAID-funded equipment to improve water quality at two large water treatment plants serving more than half a million people in the Aral Sea region was completed, and a chlorination unit and pumps were also installed at the Muinak water treatment plant. Muinak is a former fishing village—now located 100 kilometers from the Aral Sea—that has become a symbol of the Aral Sea disaster. In the area of regional water resource management, USAID narrowed its focus to achieving agreements on water-sharing in one particular river basin. With USAID-funded technical assistance, Uzbekistan, Kazakhstan, Kyrgyzstan and Tajikistan made significant progress in developing a draft agreement on the management of the Syr Darya-Naryn cascade. If all of the parties are to benefit from this cascade, water use must be balanced between irrigation and power generation, and water-sharing agreements with appropriate compensation must be worked out. **USAID's** year-long **water resources management assistance program** ended at the end of FY 1997. The program focused on policy change in Uzbekistan and produced some useful recommendations and training; however, a lack of access to senior policy makers limited the program's success. Nevertheless, the Uzbek Government's capacity to carry out environmental assessments and to use waste minimization procedures were strengthened through USAID technical assistance and training.

Security Programs

FY 1997 marked the first year that Uzbekistan, along with seven other NIS countries, became eligible to receive **Foreign Military Financing (FMF)** under the Partnership for Peace program.

Social Sector and Humanitarian Programs

Two of **USAID's family-planning training programs** ended in FY 1997, leaving only a project on the social marketing of contraceptives, which is designed to demonstrate how access to contraceptives can be increased through the commercial market. Some 60 percent of all private pharmacies in Uzbekistan now stock at least one of several project-supported contraceptives. Unfortunately, convertibility problems faced by wholesale distributors threatened the project and led USAID to seek Uzbek Government intervention. A demographic and health survey completed in late FY 1997 clearly documented a decline in abortions and widespread use and knowledge of modern methods of family planning. A total of 297 doctors and 38 health educators were trained in the treatment of childhood diarrheal disease in a USAID-funded pilot program in Ferghana. Trainers were also trained to institutionalize this knowledge, which will be spread nationally. Also with the help of USAID-funded advisors, a new immunization calendar for children was adopted in Uzbekistan.

Operation Provide Hope's 500th humanitarian airlift, which was seen off by the First Lady of the United States at a special ceremony at Andrews Air Force Base in mid-June, delivered medicines and medical equipment to both government and non-government users in Uzbekistan. In connection with the airlift, the U.S. Armed Forces supplied and installed over 200 container-loads of hospital equipment in Tashkent State Medical Institute Number 2 (Tashmi II). Tashmi II was selected because of its successful partnership with the Teaching Hospital of the University of Illinois at Chicago. The U.S. and Uzbek partners worked together to establish a women's wellness center and a neo-natal resuscitation clinic at Tashmi II.

Mercy Corps International completed the disbursement of \$3.8 million in local currency generated by the sale of surplus butter oil received under a USDA Food for Progress grant. A total of 242 projects in health, micro-enterprise development, agricultural development and democratic reform received grants and credits under this program. A total of over 34,000 people, of whom over 18,000 were women, benefited from this program. Credit repayments were used to fund revolving loan funds and credit unions operated by businesswomen's, artisans' and private farmers' associations.

The Eurasia Foundation

In FY 1997, the Eurasia Foundation awarded grants totaling \$326,000 in Uzbekistan, bringing its cumulative total to \$1.6 million. Economic development activities received the major share of the foundation's funds, with government reform, the non-profit sector, and media and communications receiving the second largest share.

Peace Corps

In FY 1997, the Peace Corps' program in Uzbekistan focused on English language instruction (27 volunteers) and business education and development (20 volunteers). Since the inception of the English language program, 60 Uzbek schools, 4 teachers' colleges and 9 universities have hosted Peace Corps volunteers, who have brought more than 5,000 students in contact with a native English speaker. A total of 2,450 university and secondary school teachers have improved their English with the help of Peace Corps volunteers, and more than 1,000 teachers improved their teaching techniques. The Peace Corps' business program was significantly reoriented from primarily providing advice to small businesses to primarily teaching business skills. Over 2,000 students have been taught applied economics and business skills through the Junior Achievement Program, and 36 teachers have been taught to teach the Junior Achievement course in applied economics. Support for small-business development continued to come from other U.S. Government-funded sources.

Preview of FY 1998 Programs

In the area of trade and investment promotion, U.S. Government-funded assistance in commercial law is expected to increase as the Uzbek Government engages in the process of acceding to the World Trade Organization (WTO) and needs to bring its legal regime into compliance with WTO standards. In the area of business and economic development, fiscal reform assistance will continue in a more streamlined form through the end of 1998. Additional assistance to the central bank in supervision and accounting will continue. If the Government of Uzbekistan agrees to convert the Center for Control of Securities Markets into a truly independent regulatory agency, significant assistance will be provided in capital markets development. A memorandum of understanding on capital markets development is being negotiated. The Uzbek Government's commitment to pension reform will require increased assistance in both legal and administrative reform. The activity level of the Central Asian – American Enterprise Fund (CAAEF) in Uzbekistan will continue to depend on whether or not the government moves forward on convertibility and allows market forces to begin working.

In the area of democracy and governance, USAID and the Organization on Security and Cooperation in Europe (OSCE) will offer a joint program of election assistance if the Uzbek Government agrees to hold free and fair elections in 1999. Under its NGO support program, USAID will focus additional resources on the enactment of a new NGO law. USAID-funded energy and environmental programs will remain focused on achieving an agreement regulating the sharing of the waters of the Syrdarya River and the exchange of coal and gas for water resources. The oil and gas initiative begun in mid-FY 1997 will move into full swing, with USAID providing advice and assistance in finalizing a draft oil and gas exploitation law, developing model production-sharing agreements and preparing denationalization legislation. USAID's health reform project will be implemented in conjunction with the World Bank's health reform program on the basis of a memorandum of understanding between the two organizations. In addition, the Peace Corps will place 26 English language and 22 business volunteers in Uzbekistan in early 1998.

III. ASSESSMENTS OF MAJOR PROGRAMS

The following section describes the objectives of the major regional U.S. Government-funded NIS assistance programs by category, summarizes their achievements and assesses their effectiveness.

USAID - BUREAU FOR EUROPE AND THE NIS (ENI)

In FY 1997, the USAID-funded assistance activities described in the above country assessments were organized according to the ENI Bureau's strategic framework for the NIS, which consists of 11 strategic objectives divided into four strategic assistance areas:

STRATEGIC ASSISTANCE AREA 1: ECONOMIC RESTRUCTURING

Goal: To foster the emergence of a competitive, market-oriented economy in which the majority of economic resources is privately owned and managed

ENI Objective 1.1: Increased transfer of state-owned assets to the private sector.

This objective embraces USAID support for the transfer of public enterprises and other state-owned assets (land, housing stock, financial institutions, utilities, etc.) to private ownership and management. Areas of emphasis include the following:

- policy, legislative and regulatory actions to facilitate and provide confidence in privatization;
- technical assistance, training, and policy advice to strengthen local institutional capabilities to manage privatization programs;
- assistance in organizing and financing privatization arrangements, e.g., mass privatization, auctions, competitive tenders, employee ownership, etc.;
- assistance to public education on privatization; and
- post-privatization assistance where such assistance forms part of a continuum of privatization assistance for a specific state-owned enterprise (SOE);

ENI Objective 1.2: Increased soundness of fiscal policies and fiscal management practices.

This objective seeks to establish a supportive environment for private-sector growth and financial market development. It focuses on increasing the stability and predictability of prices at low inflationary levels to preserve the real value of earnings; reducing public-sector demand for and preemption of financial resources outside market channels; and improving public-sector resource allocation, cost-effectiveness, and accountability. Areas of emphasis include the following:

- better alignment of revenue policies and budget allocation with economic objectives, particularly to promote private savings, investment, and earnings;
- modernization of tax codes and systems to emphasize transparency, simplicity and equity;
- improvement of tax administration, leading to more widespread taxpayer compliance, reduced delinquencies and higher tax yield;
- reduction of public-sector budget deficits;
- development of performance-based public-sector budgeting systems, with emphasis on improved budget planning, execution and controls;

- rationalization of government transfers to state-owned enterprises, leading to reduced subsidies, increased budget transparency and improved accountability; and
- broad-based reduction of government subsidies, with a policy shift from generalized to targeted subsidies.

ENI Objective 1.3: Accelerated development and growth of private enterprises.

This objective embraces the policy reforms, legislation and regulatory actions necessary to create an enabling environment for private enterprise. It also emphasizes assistance to individual enterprises with the goal of improving their productivity and competitiveness, and the development of business service institutions that will continue to support the growth of private firms. Micro-level assistance is directed at broad-based improvement of business practices in such areas as planning, management, production, marketing, accounting, resource mobilization, etc. Representative policy, legislative, and regulatory activities include the following:

- establishment of commercial law and associated regulatory procedures on such topics as formation of corporations and partnerships, contracts, bankruptcy;
- protection of land ownership and intellectual property;
- trade-enhancing improvements in customs administration and tariff reform;
- simplified laws and regulations on foreign investment;
- promotion of competition, control of monopolies, and protection of consumer rights;
- establishment of the legal framework and conditions for a private housing market; and
- removal of environment-related barriers to investment, including greater reliance on market-based, incentive-oriented environmental management policies; use of environmental audits and government indemnification to reduce new-investor liability risks; and simplified environmental compliance procedures.

Assistance to firms may be provided directly or channeled through business service organizations. Such assistance includes the following:

- establishment/strengthening of business development centers, producer and trade associations, small business incubator facilities, management consulting and training organizations, etc.;
- small and medium-sized enterprise development;
- technical assistance, training, and equipment for improved agricultural production, processing, and marketing, including farmer-to-farmer assistance;
- enterprise fund assistance directly to firms, including equity investments, credit, investment insurance, etc.;
- Eurasia Foundation activities in business education, management training, agribusiness promotion, small and medium enterprise development, defense conversion, etc.
- strengthened capabilities of private land developers, housing contractors, and realtors;
- assistance for condominium development and management; and
- assistance to individual firms in the areas of environmental audits, cost-effective compliance with environmental regulations, and waste recycling.

ENI Objective 1.4: A more competitive and market-responsive private financial sector.

This objective seeks to improve the private sector's accessibility to a wide array of financial instruments at competitive, market-determined rates. It places emphasis on strengthening the efficiency, reliability and transparency of financial markets. Representative activities include the following:

- establishing efficient, well-regulated private banking operations;
- strengthening Central Bank functions and regulatory oversight of commercial banking;
- improving security of the banking system through bank guaranty funds, deposit insurance facilities, etc.;
- creation/expansion/regulation of capital markets, commodity exchanges, and market-based mortgage lending;
- diversification of financial instruments;
- development of municipal bond markets and other instruments for local government resource mobilization; and
- establishing sustainable credit facilities for small and medium-sized enterprise where they constitute a segment of a broader financial market.

ENI Objective 1.5: A more economically sound and environmentally sustainable energy system.

This objective is focused on achieving greater efficiency in energy production and use; restructuring energy companies into more commercialized, market-based operations; preserving the energy resource base; and reducing energy-related environmental problems. Representative activities include the following:

- promulgation of policies, laws and regulations critical to restructuring the energy sector;
- development of commercially viable private-sector capabilities in energy services;
- introduction of improved, environmentally friendly energy technologies;
- energy conservation measures in heat and power plants; and
- industrial energy-efficiency programs which focus on demand-side management.

STRATEGIC ASSISTANCE AREA 2: DEMOCRATIC TRANSITION

Goal: To support the transition to transparent and accountable governance and the empowerment of citizens through democratic political processes

ENI Objective 2.1: Increased, better-informed citizen participation in political and economic decision-making.

This objective embraces USAID assistance directed towards strengthening systems of democratic representation and open information, developing an informed citizenry, and organizing citizen participation through effective advocacy groups. Increased popular participation is intended to produce greater involvement of citizens in the political process, influence on public policy, and oversight of government. Representative activities include the following:

- support for the conduct of free and fair elections;
- strengthening political parties;

- development of independent, responsible media;
- improvement of access to government information;
- increase in the breadth, vitality, and impact of civic associations and NGOs concerned with public policy, human rights, and environmental management;
- strengthening independent, representative labor unions.

ENI Objective 2.2: Legal systems that better support democratic processes and market reforms.

This objective seeks to establish the rule of law, protect civil, political, and property rights, and place limits on arbitrary actions by government. Fair, objective, consistent rule of law requires development of an independent judiciary, professional and honest prosecutors, effective legal representation, and well-defined legal procedures which help to ensure uniform and timely enforcement of laws. Representative activities include:

- establishment of constitutions and civil codes;
- strengthening parliamentary processes, including research/information bases for parliamentary action;
- strengthening the judiciary, bar associations and court administration;
- introduction of systems for alternative dispute resolution;
- improvement of criminal statutes and law enforcement procedures;
- establishment of processes/organizations which limit government corruption and human rights violations.

ENI Objective 2.3: More effective, responsible, and accountable local government.

Improved local governance is at the core of this objective, requiring rationalization of intergovernmental roles and responsibilities, decentralization of authority (including financial authority) to the local level, improved capacity of local government, and improved channels for citizen participation in local government affairs. Representative activities include:

- establishment of laws and regulations enhancing local government authority;
- improvement of arrangements for revenue-sharing with central government and local government revenue generation;
- establishment of competitive and transparent procurement procedures;
- strengthening local technical and managerial capabilities;
- improvement of urban services such as water supply and waste management, when viewed primarily as local government-strengthening activities;
- greater reliance on private contracts for the provision of urban services and for the management and maintenance of municipally owned housing;
- improvement of public/local government interaction through published local government decisions, public hearings, appointments of citizens to planning boards, etc.

STRATEGIC ASSISTANCE AREA 3: SOCIAL STABILIZATION

Goal: Respond to humanitarian crises and strengthen the capacity to manage the human dimension of

the transition to democracy

ENI Objective 3.1: Reduced human suffering and crisis impact

This objective encompasses actions to address critical humanitarian needs and strengthen organizational capabilities to anticipate, prevent, and manage future crises. Representative activities include the following:

- emergency food distribution and establishment of food safety nets for vulnerable populations;
- assistance to war trauma victims, refugees and displaced persons;
- providing emergency supplies of medicines, vaccines and medical equipment;
- winter fuel distribution;
- improvement of support services for handicapped and abandoned children;
- development of early warning systems for humanitarian crises;
- improvement of emergency response capabilities.

ENI Objective 3.2: Improved sustainability of social benefits and services.

This objective embraces a range of policy initiatives, pilot efforts and reform programs to redefine government roles (at the national and local levels) in the delivery of social services and benefits, make these services compatible with free-market principles, introduce private-sector concepts and management practices into the public provision of services, and create conditions and incentives for an enlarged private-sector role in service delivery and financing. Representative activities include the following:

- increased reliance on alternative modes of health care provision and financing;
- development of national health insurance systems;
- restructuring of public housing subsidies to emphasize need-based allowances;
- formulation of affordable, cost-shared social security and unemployment insurance systems.

ENI Objective 3.3: Reduced environmental risks to public health.

This objective embraces actions to halt contamination of air, water and soil; improve waste management practices; and elevate public knowledge leading to greater support for and voluntary compliance with safe environmental standards. Representative activities include the following:

- improvement of operational safety at nuclear power plants and nuclear regulatory bodies;
- reduction of health-threatening industrial emissions and effluent and related enforcement of environmental safety standards;
- reduction of hazards to industrial workers;
- improvements in water supply and waste-water management systems, where pollution poses a current or imminent public health problem;
- strengthening capabilities in environmental management and public education programs on environmental health issues.

STRATEGIC ASSISTANCE AREA 4: CROSS-CUTTING PROGRAMS/SPECIAL INITIATIVES

This assistance area includes the following types of programs:

- activities that do not contribute directly to other strategic objectives, but nevertheless serve strong Administration or Congressional interests or address an extraordinary circumstance requiring USAID assistance in a particular country;
- activities that relate directly to a particular ENI Objective, but are too limited in scope or impact to be designated a strategic objective in the country program; and,
- cross-cutting activities that contribute to more than one strategic objective. A specific example is general participant training.

The following table shows the objectives pursued by each USAID country program in FY 1997:

USAID/ENI STRATEGIC OBJECTIVES IN THE NIS - FY 1997

	1.1	1.2	1.3	1.4	1.5		2.1	2.2	2.3		3.1	3.2	3.3		4
Armenia			X	X	X		X	X			X				X
Azerbaijan			X				X				X				X
Belarus															X
Georgia		X	X	X	X		X	X	X		X				X
Kazakhstan	X	X	X	X	¹		X		X			X	¹		X
Kyrgyzstan	X	X	X	X	¹		X		X			X	¹		X
Moldova	X	X	X	X	X										X
Russia		X	X	X	X		X	X				X	X		X
Tajikistan			X	X	¹		X				X		¹		X
Turkmenistan		X	X		¹										X
Ukraine	X	X	X	X	X		X	X	X		X	X	X		X
Uzbekistan		X	X	X	¹		X					X	¹		X

¹ In FY 1997, USAID was pursuing Strategic Objectives 1.5 and 3.3 on a regional basis in the Central Asian countries.

Key to Strategic Objectives

1.1 Privatization
 1.2 Fiscal Reform
 1.3 Strengthening Private Enterprises
 1.4 Financial Sector Reform
 1.5 Sustainable Energy Systems

2.1 Citizens' Participation
 2.2 Rule of Law
 2.3 Local Government

3.1 Reduced Human Suffering
 3.2 Sustainable Social Services
 3.3 Environmental Health

4 Cross-Cutting Activities and Special Initiatives

TRADE AND INVESTMENT PROGRAMS

U.S. EXPORT-IMPORT BANK (EXIMBANK)

In FY 1997, Eximbank authorized \$1.02 billion in final commitments to the NIS under its loan, guarantee and insurance programs, accounting for a total of \$201 million in subsidies charged to Eximbank's appropriation. A breakdown by country is provided below:

<u>COUNTRY</u>	<u>AUTHORIZATIONS</u>
Georgia	\$14 million
Kazakhstan	\$22 million
Russia	\$474 million
Turkmenistan	\$133 million
Ukraine	\$78 million
Uzbekistan	\$301 million
<u>TOTAL</u>	<u>\$1.022 billion</u>

As of the end of 1997, Eximbank had a total exposure of \$3.3 billion in the NIS. Nearly \$1 billion in final commitments had been authorized to help finance U.S. exports in support of the rehabilitation of Russia's oil sector under the Oil and Gas Framework Agreement (OGFA). This financing is secured by the assignment of hard-currency export earnings under firm offtake contracts.

Eximbank is working on arrangements to permit continued financing for U.S. exports to Russia's oil and gas sector. Secured financing arrangements are also being implemented for the forest products and fishing sectors, and Eximbank expects that such arrangements can be adapted for use in mining and other industries.

In FY 1997, Eximbank opened for business in Russia's private sector. Since then, it has approved transactions backed by six Russian banks, and expects this activity to expand substantially in FY 1998. Eximbank is also exploring ways to provide greater access to its programs for small and medium-sized enterprises in Russia, as well as regional administrations and enterprises. Eximbank is also open for private-sector transactions in Kazakhstan, and is looking for ways to support the development of the private sector in other NIS countries where its programs are available.

In FY 1997, Eximbank signed Project Incentive Agreements (PIAs) with Armenia, Azerbaijan, Georgia and Kyrgyzstan, bringing to eight the number of NIS countries with which such agreements have been signed. These agreements provide a framework for financing U.S. exports on a non-sovereign basis, by looking to revenues from the projects themselves as the source of repayment. In appropriate cases, these agreements can even enable Eximbank to support U.S. exports to countries where it is otherwise not yet open. For example, under the PIA with Georgia, Eximbank authorized a \$14 million guarantee for the sale of a U.S. air traffic control system.

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

OPIC provides political risk insurance to U.S. investors to mitigate the risks of overseas business ventures in developing countries and emerging markets. In FY 1997, OPIC's insurance portfolio continued to grow in Russia and other NIS countries. The demand for insurance has been greatest from U.S. companies investing in the telecommunications, mining, and financial services sectors, but OPIC insurance exposure to general manufacturing projects also grew. Russia continued to dominate OPIC's business in this part of the world, both in terms of aggregate insurance issued and the number of projects. OPIC's clients continued to struggle with the difficult operating environment in the NIS, and OPIC is actively working to avert a number of potential claims from clients in Russia and other NIS countries.

As of the end of FY 1997, OPIC's cumulative NIS commitments totaled \$4.5 billion, of which \$2.8 billion was insurance and \$1.7 billion was for finance and OPIC-backed fund investments. OPIC's NIS exposure as of the end of the fiscal year was \$3.84 billion, of which \$2.35 billion was insurance and \$1.49 billion was for finance and OPIC-backed fund investments.

In FY 1997, OPIC provided insurance to 18 projects in the NIS, 11 of which were new projects and seven of which were expansions of existing OPIC-sponsored projects. Eight of the FY 1997 projects were sponsored by U.S. small businesses. OPIC's FY 1997 insurance project support in the NIS represented \$448.5 million in assistance to U.S. companies.

In FY 1997, OPIC Finance committed to provide a \$116 million loan guarantee to the \$850 million Sakhalin Energy Project, which will develop the Astokh feature of the Piltun-Astokoye crude oil offshore field east of Sakhalin Island in the Russian Far East. The project is being sponsored by the Marathon Oil Company, Mitsui & Company, Mitsubishi Corporation, and the Royal Dutch/Shell Group. The project is important, as it is expected to serve as a catalyst for other production sharing contracts under Russia's new Law on Production Sharing Agreements, thereby increasing the amount of foreign investment in a key sector of Russia's economy. OPIC also has over 10 projects in the pipeline for Russia. These deals are in a number of new sectors, such as hotels, manufacturing and transportation, as well as in the natural resources sector.

Interest is picking up for investment in other NIS countries besides Russia. OPIC Finance has four projects in its pipeline. Most of this interest has been focused on oil and gas, although there is increasingly significant interest in infrastructure lending as well.

Also in FY 1997, OPIC began the process of setting up a private investment fund to focus on Georgia, Armenia and Azerbaijan. The fund's capital will be composed of OPIC-guaranteed debt and unguaranteed private equity in a ratio of 2:1. By the end of FY 1997, a fund manager had been identified and the process of raising capital was under way.

U.S. TRADE AND DEVELOPMENT AGENCY (TDA)

TDA, a small, independent federal agency, is a pioneer in providing assistance to the NIS. After the breakup of the Soviet Union, TDA moved quickly to establish a program in the region and provided its first feasibility study grant in 1992. Since then, TDA's NIS initiatives have continued to grow. Much of TDA's activity in the NIS has been concentrated in Russia; however, TDA's regional team has made a continued effort to increase TDA's program activities in Central Asia, the Caucasus and Ukraine.

As the NIS countries continue their transformation towards market-based democracies, they are becoming a fast-growing export market for U.S. goods and services. In the few short years since opening for business in the NIS, TDA has funded over 180 feasibility studies totaling over \$70 million for major infrastructure and industrial projects. These projects present export opportunities of more than \$5 billion for U.S. companies. As of the end of FY 1997, exports to the NIS of U.S. goods and services related to TDA-supported projects totaled about \$600 million. In FY 1997, TDA obligated over \$9.6 million for the NIS. TDA funded 34 feasibility studies for projects in areas including oil and gas development, health care, mining, power generation, waste-water treatment and telecommunications. (see also Georgia, Russia and Ukraine country assessments)

Central Asia: TDA provided \$500,000 in funding for a study on a gold mining project in Uzbekistan using modular transportable plants. This project is a direct result of the TDA-sponsored visit of Uzbek President Karimov to Denver in June 1996. TDA also sponsored an orientation visit to Uzbekistan's health sector. At the request of the Governments of Kazakhstan and Kyrgyzstan, TDA funded two definitional missions in the mining/minerals sector as a first step in a long-term program to promote U.S. trade and investment in this sector. TDA also funded an orientation visit by Kazakh and Kyrgyz mining/minerals officials to the United States. In Kazakhstan, TDA provided funding for feasibility studies on the European Bank for Reconstruction and Development (EBRD) Railway Modernization Project and on the World Bank Public Sector Resource Management Adjustment Loan.

ENTERPRISE FUNDS

The enterprise fund concept grew out of the U.S. Government's commitment to help the indigenous private sectors of Central and East European countries from 1989 on, and was extended to the NIS after the collapse of the former Soviet Union in 1991. The FREEDOM Support Act of 1992 extended the authority contained in the Support for East European Democracy (SEED) Act of 1989 for the creation of enterprise funds to the NIS. The enterprise funds are designed to promote private-sector development, including small businesses, joint ventures and the agricultural sector, as well as policies and practices conducive to private-sector development.

The funds are authorized to provide loans, grants, equity investments, feasibility studies, technical assistance, training, insurance, guarantees and other mechanisms to achieve these objectives. The enterprise funds have provided venture capital in situations where financial markets are still evolving and the business environment is so fragile that foreign investors are reluctant to commit funds to emerging small and medium-sized enterprises. The programs offered by the funds range from venture capital to lending for micro-enterprises. The funds have also assisted enterprises by providing limited technical assistance and training.

As of the end of FY 1997, USAID had authorized a total of \$815 million for enterprise fund activities in the NIS, of which \$399 million had been obligated and an estimated \$292 million expended. A total of \$740 million was authorized for three enterprise funds: \$440 million for the U.S.-Russia Investment Fund (TUSRIF), \$150 million for the Central Asian - American Enterprise Fund (CAAEF) and \$150 million for the Western NIS Enterprise Fund (WNISEF). Another \$50 million supported two funds which are co-funded by the European Bank for Reconstruction and Development (EBRD)—the G-7's Russia Small Business Fund (SBF) and the U.S.-EBRD Regional Venture Fund for the Lower Volga Region—and \$25 million was authorized for the creation of a new Trans-Caucasus Enterprise Fund. Also, through FY 1997, the Defense Enterprise Fund (DEF) has been capitalized at a total of \$66 million with funding from the Departments of Defense and State.

Trans-Caucasus Enterprise Fund

In FY 1996, Congress earmarked \$15 million for the creation of a Trans-Caucasus Enterprise Fund for the purpose of promoting regional cooperation and private-sector development in Armenia, Azerbaijan and Georgia. In the FY 1997 Omnibus Appropriations Bill, an additional \$10 million was earmarked for the Fund. The Administration requested, and was granted by Congress in the FY 1997 Appropriations Bill, the authority to meet these earmarks through "investment in a Trans-Caucasus Enterprise Fund or in another fund established by a public or private organization, or transferred to the Overseas Private Investment Corporation (OPIC), to be available to subsidize the costs of direct and guaranteed loans, subject to the requirements of the Federal Credit Reform Act." In late FY 1997, \$5 million was transferred to OPIC, and Shorebank and FINCA International were contracted to implement a \$15 million micro- and small-business lending activity in the Caucasus countries.

Central Asian - American Enterprise Fund (CAAEF)

Established in August 1994 to promote the creation of small- and medium-sized businesses in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, the Central Asian - American Enterprise Fund (CAAEF) got off to such a quick and promising start that its initial funding was increased from \$30 million to \$45 million in December 1994. In addition to establishing offices in all five Central Asian countries, the CAAEF set up a small-business lending subsidiary, the Asian Crossroads Loan Company (ACLC), with assistance from South Shore Bank of Chicago. Since its establishment, the CAAEF has completed a total of 25 transactions in all five countries.

As of the end of September 1997, the CAAEF had approved \$56.8 million in loans and equity investments (above \$100,000 each) for 28 large enterprises in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. In addition, the CAAEF had also approved \$8.3 million in small-business loans for 101 small businesses in the region. The CAAEF's portfolio continued to be concentrated in Kazakhstan and Uzbekistan, where the Fund's presence is already well established and where roughly two-thirds of the region's population resides. The food processing and manufacturing sectors accounted for over 75 percent of the CAAEF's investment approvals.

DISTRIBUTION BY COUNTRY OF CAAEF LARGE ENTERPRISE TRANSACTIONS

<u>COUNTRY</u>	<u>APPROVED</u>		<u>DISBURSED</u>	
	<u>AMOUNT</u>	<u>NUMBER</u>	<u>AMOUNT</u>	<u>NUMBER</u>
Kazakhstan	\$15.3 m	9	\$ 9.4 m	9
Kyrgyzstan	\$ 3.7 m	4	\$ 2.8 m	4
Tajikistan	\$ 0.6 m	1	\$ 0.5 m	1
Turkmenistan	\$13.8 m	4	\$ 3.7 m	1
<u>Uzbekistan</u>	<u>\$23.4 m</u>	<u>10</u>	<u>\$20.1 m</u>	<u>8</u>
TOTAL	\$56.8 m	28	\$36.5 m	21

The CAAEF's small business lending subsidiary, the Asian Crossroads Loan Company (ACLC), made 89 small business loans, just over 80 percent of which were in the food processing, manufacturing and service sectors.

DISTRIBUTION BY COUNTRY OF ACLC SMALL-BUSINESS LOANS

<u>COUNTRY</u>	<u>APPROVED</u>		<u>DISBURSED</u>	
	<u>AMOUNT</u>	<u>NUMBER</u>	<u>AMOUNT</u>	<u>NUMBER</u>
Kazakhstan	\$2.61 m	23	\$2.30 m	21
Kyrgyzstan	\$0.72 m	19	\$0.78 m	17
Tajikistan	\$0.76 m	8	\$0.55 m	6
Turkmenistan	\$1.86 m	21	\$1.14 m	17
<u>Uzbekistan</u>	<u>\$2.33 m</u>	<u>30</u>	<u>\$1.64 m</u>	<u>28</u>
TOTAL	\$8.28 m	101	\$6.68 m	89

CAAEF estimates that investments consummated to date have helped to create 842 new jobs and that the Asian Crossroads Loan Company has helped to create over 1,000 new jobs directly and 1,500 indirectly.

The U.S.-Russia Investment Fund (TUSRIF)

The U.S.-Russia Investment Fund (TUSRIF) was created in April 1995 as the result of a decision by the Coordinator of U.S. Assistance to the NIS to consolidate two predecessor funds: the Russian American Enterprise Fund (RAEF) and the Fund for Large Enterprises in Russia (FLER). In addition to its New York headquarters, TUSRIF has offices in Moscow, Yekaterinburg (Urals), Khabarovsk (Far East), Rostov-on-Don (Southeast), and St. Petersburg (Northwest). As of the end of August 1997, TUSRIF had funded a total of \$10.1 million in loans to 146 small businesses, and \$70.3 million in direct financing to 23 firms.

TUSRIF's investments encompass a wide variety of industries, including broadcast radio and television, publishing, beverages, plywood manufacturing, textiles, retailing services, agriculture and food processing. Beyond providing capital to its portfolio companies, TUSRIF is adding value to its investees by funding a variety of technical assistance initiatives aimed principally at management training, information system development, and advisory services. In January 1997, Bruce W. Shewmaker, an investment manager with experience in small businesses, succeeded Austin M. Beutner as the President and Chief Executive Officer of TUSRIF.

The Lower Volga Regional Venture Fund (LVRVF)

The Lower Volga Regional Venture Fund (LVRVF) is one of 11 EBRD-Russian regional venture funds. The Fund is part of an initiative agreed upon by the G-7 governments and the European Union at the Tokyo Summit in July 1993, to support enterprises newly privatized under the Russian Government's mass privatization program. The LVRVF became operational in May 1995 with a \$30 million capital commitment from EBRD and a pledge of \$20 million from USAID to cover technical assistance expenses and operating costs during the ten-year life of the fund. The LVRVF's primary areas of operation are the *oblasts* (regions) of Volgograd, Samara and Saratov. A contract to manage the fund was awarded to HP Russia LP, a Boston-based venture management group.

The LVRVF strives to adapt a Western-style, early-stage venture capital investment strategy to the Russian business environment. The fund manager seeks to identify superior management teams that embrace its active

participation in corporate governance and to invest in companies that will experience above average growth relative to the Russian economy. Seventy-five percent of the Fund's capital must be invested in the Lower Volga Region and in newly privatized companies.

As the end of FY 1997, the LVRVF had disbursed \$9.7 million to four companies: Saratov Wallpaper Mill (\$1.1 million), Povolzhe Brewery (\$3.3 million), Rolti Wood Processing (\$2.6 million), and Lada Khleb Bakery (\$2.7 million). An additional \$7.3 million was approved by the investment committee but has not been disbursed. The fund manager firmly believes that the fund could not be successful without the substantial assistance provided by USAID. To date, approximately \$2 million has been approved and/or disbursed for such assistance to investee firms.

The Russia Small Business Fund (RSBF)

At the Tokyo Summit in July 1993, the G-7 donors decided to create a Russia Small Business Fund (RSBF) to provide small and micro-enterprises in Russia with access to capital and technical assistance. Total projected funding for the RSFB is \$300 million, half of which will be provided by the EBRD, and the remainder of which will be provided by other G-7 nations, Switzerland and the European Union. The U.S. Government pledged to contribute \$30 million to the RSBF (through USAID) over the life of the project. The RSBF's activities now include three components: micro-enterprise credit; small-business credit; and small-business equity.

In FY 1997, the volume of loans disbursed in both the micro- and small loan programs continued to increase. As the end of the fiscal year, the RSBF had disbursed \$159.8 million to micro- and small enterprises. The RSBF's lending operations expanded to Omsk, Tver, Vladivostok, Nizhniy Tagil, Chelyabinsk and Yaroslavl. The lending program also expanded to Novgorod, Kransnoyarsk and Novokuznetsk in September 1997.

The RSBF will continue to expand to new locations in FY 1998, moving outwards from its major regional hubs. This approach has proved beneficial, especially as it maximizes the effect of the available consultant resources. Russian staffs are playing an increasingly influential role in establishing a presence in these new regions and satellite towns, demonstrating that the prospects for RSBF's long-term sustainability continue to improve.

Western NIS Enterprise Fund (WNISEF)

The Western NIS Enterprise Fund (WNISEF) completed its second full year of operations in the region, with over \$46 million committed to more than 50 medium and small-sized companies. Over \$44 million was committed to 19 companies through the Fund's early-stage venture capital operations. This represents an increase in commitments of approximately \$15 million from the end of FY 1996. The WNISEF's venture capital portfolio grew by one company, from 18 companies at the end of the last fiscal year; this was the net result of the removal of six companies from the portfolio and the addition of seven new companies. Of the six companies that left the fund, three relationships were ended for various reasons at no loss to the fund, and three companies repaid loans extended by the fund.

As of the end of FY 1997, the WNISEF's Small Business Loan Fund (SBLF) had committed approximately \$2 million to 42 companies, including over \$850,000 in new loan commitments to 18 companies. During the year, the Fund expanded its operations throughout the region. A representative office for the SBLF's venture capital operations was opened in Minsk; however, investment opportunities in Belarus remained quite limited, and the SBLF's management decided to proceed cautiously before making any commitments there.

The SBLF opened offices in Lviv and Kharkiv in FY 1997 and made plans to open a fourth office in southern Ukraine in FY 1998. The fund was able to achieve these results, and most of the underlying portfolio companies were able to expand their operations, despite continued problems with the country's economy, which in the first eight months of 1997, shrank 5.7 percent when compared with the economy in the same period last year.

The WNISEF helped its portfolio companies grow, despite numerous macro-economic infrastructural and government impediments, by improving operating performance at the company level. The fund brought a number of experienced executives from the United States and Canada to its portfolio companies to advise them on the installation and start-up of new equipment. In addition, these executives helped the companies create and expand their marketing and sales efforts. The fund also provided training for the companies' support staff in areas such as finance, accounting, marketing and sales. To prepare the companies for attracting additional

outside capital, the fund introduced and participated actively in the practice of appropriate corporate governance, with the goal of protecting the rights of all shareholders, including financial investors and small investors.

Defense Enterprise Fund (DEF)

The Defense Enterprise Fund (DEF) was established in FY 1994, as authorized pursuant to the National Defense Authorization Act for 1994 (P.L. 103-160) under a grant from the Defense Special Weapons Agency (DSWA) that incorporated the provisions, practices and procedures developed for the other enterprise funds. The DEF shares the basic mandate of all the enterprise funds—to assist the given countries as they move towards democracy and open markets by developing their private sectors through activities such as equity investments, grants and loans to private enterprises. The DEF's mandate is different, however, in that it is required through its projects to facilitate the conversion of military technologies and capabilities into civilian activities.

Capitalized at \$51 million through 1996 under the Department of Defense Cooperative Threat Reduction Program, the DEF received \$15 million in FY 1997 FREEDOM Support Act funds through the State Department, bringing its total capital to \$66 million. Cumulatively through September 30, 1997, the DEF Board had approved 13 ventures ranging in amounts from \$800,000 to \$6 million. Through FY 1997, the investment commitments totaled \$45.4 million from total grants of \$51.67 million, of which \$22.9 million had been disbursed. DEF investment commitments have increased further in the first quarter of FY 1998 to over \$51 million with more than \$31 million disbursed as of December 31, 1997.

The DEF has made significant progress in meeting the country objectives and performance benchmarks established by the DEF's Grant Administrator, the Defense Special Weapons Agency (DSWA). As a highlight of FY 1997, the DEF saw the successful harvest of the "Nevamash" project in which a \$2.8 million loan was repaid along with interest and penalties. As a result of this project, a former Soviet tank production plant is now producing excavators for Caterpillar and will employ nearly 7,000 people. This type of successful early return on investment reflects DEF's solid performance and set a high standard for the future.

U.S. DEPARTMENT OF COMMERCE - BUSINESS DEVELOPMENT COMMITTEES (BDCs)

The Commerce Department's Business Development Committee Initiatives (BDCI) support programs and activities of the Business Development Committees (BDCs) established with Russia, Ukraine, Kazakhstan and Belarus. The BDCs are the U.S. Government's primary vehicle for accelerating the growth of trade and investment with these countries and aiding their transition into market economies. The BDCs work to remove legal, regulatory and practical impediments hindering trade and investment; facilitate conclusion of commercial projects; develop information and contacts in key industries and regions; and create synergy between government and private sector resources and initiatives. In FY 1997, BDC sessions were held with Russia, Ukraine and Kazakhstan. (The U.S.-Belarus BDC will remain inactive until the Government of Belarus resumes a policy of economic reform.) Four meetings of the U.S.-Russia BDC, two meetings of the U.S.-Ukraine Committee on Trade and Investment, and two meetings of the U.S.-Kazakhstan BDC are planned for FY 1998. In addition, the BDCI program will support the launching of the U.S.-Uzbekistan Trade, Investment and Energy Working Group. The BDCI program also supports efforts of the U.S. Ombudsman for Energy and Commercial Cooperation with the NIS and other programs to conduct commercial dialogue and expand bilateral trade and investment with NIS countries with which the U.S. does not have BDCs.

U.S.-Russia BDC: In FY 1997, the U.S.-Russia BDC worked to strengthen bilateral trade and investment relations with Russia and advised the Russian Government on steps to improve the country's commercial climate through its joint working groups. The U.S.-Russia BDC held four executive council meetings in FY 1997 and presented reports to the Eighth and Ninth Sessions of the Gore-Chernomyrdin Commission (GCC), including two joint reports on U.S.-Russian trade and investment relations and BDC activities. At the Eighth Session, the U.S.-Russia BDC stressed that in order to improve its investment climate, Russia must adopt a fair tax regime, enact production-sharing legislation in the energy sector, and adhere to the rule of law in commercial transactions. In the market access area, the two sides agreed to establish a formal dialogue on product standards and certification under the auspices of the BDC. The U.S. Ombudsman raised the continuing taxation of U.S. Government-funded assistance by Russian tax and customs authorities, and urged the Russian Government to abide by the 1992 U.S.-Russian Bilateral Agreement on Assistance. At the Ninth Session of the GCC, the U.S.-Russia BDC reiterated the need to enact production-sharing legislation in the energy sector and

to take early action on the GCC's priority energy projects. It was agreed that the U.S. Ombudsman would work with the Ministry of Fuel and Energy to come up with joint recommendations on moving forward these stalled energy projects. The Inter-Ministerial Working Group on Oil Industry Taxation presented a joint report noting progress in rationalizing Russia's pipeline transportation system. The U.S.-Russia BDC also agreed to initiate a four-way customs dialogue, with inclusion of both sides' business communities, in order to try to reduce customs-related barriers to trade and investment.

In FY 1997, the U.S.-Russia BDC supported the joint Regional Investment Initiative through a series of bilateral meetings with Russian regional officials. Trade and investment consultations were held with officials from Samara, Nizhniy Novgorod, Leningrad *Oblast* (Region), Krasnoyarsk, Tatarstan and the Russian Far East. In addition, the BDC helped organize a roundtable in Samara chaired by Prime Minister Chernomyrdin and Vice President Gore highlighting business opportunities in the Volga region. The BDC's 22 working groups and subgroups continued to address the micro-economic and industry-specific factors affecting the expansion of trade and investment. In May, the BDC Standards Working Group agreed to an initial program of action intended to realize the goals of the BDC Standards Dialogue. This plan includes information-sharing activities, increased cooperation between the Standards Working Group and sectoral working groups of the BDC, and consultations with business representatives, policy-making entities, and regulatory and licensing agencies, with a view to developing a joint U.S.-Russian effort to address the full range of issues associated with establishing conformity assessment practices. In June, the chairman of the Standards Working Group and BDC Executive Secretary participated in a symposium on standards and certification for Russian officials sponsored by United Technologies under the auspices of Prime Minister Chernomyrdin's Foreign Investment Advisory Council. The BDC's Taxation Working Group continued to urge reform in several important areas of tax administration, including expansion of allowable business deductions, development of a fair and consistent appeals mechanism, and clarification of discrepancies in administration of the VAT law. Several of the working group's recommendations were included in the Russian Government's draft Tax Code. Other subgroups which were active in FY 1997 include the Computer Systems and Software Subgroup (which held its inaugural meeting in Washington in December 1996), the Microelectronics Subgroup, and the Subgroup on Medical Equipment, Pharmaceuticals and Health Services.

In FY 1998, the U.S.-Russia BDC will continue to work with the Russian Government and Parliament on commercial tax reform through the U.S.-Russian Working Group on Taxation and to promote the legal framework necessary to promote U.S. investment in the energy sector through the BDC Oil and Gas Working Group and the work of the Ombudsman. Other key goals will include customs reform through the BDC Joint Commercial Customs Dialogue, reform of product standards and certification through the BDC Joint Standards Dialogue, approval of the Bilateral Investment Treaty by the Russian Duma, Russia's WTO accession, intellectual property rights protection, transition to international accounting standards, and development of effective dispute resolution mechanisms for commercial transactions. In addition, the BDC will expand its efforts to support the Regional Investment Initiative through outreach to Russia's regions and workshops on investment promotion strategies at the regional and local level.

U.S. West Coast - Russian Far East Ad Hoc Working Group: The U.S.-Russia BDC's U.S. West Coast - Russian Far East Ad Hoc Working Group has been an innovative illustration of interregional commercial cooperation and has offered lessons for expanding ties with other Russian regions. In FY 1997, the Working Group held a meeting in Kamchatka which turned out to be the largest bilateral business event ever held in the region, attracting over 400 Russian federal and regional officials, U.S. federal and state officials, and business people from both countries. The Working Group noted that trade between the two regions had increased in 1997 and called for increased investment in the Russian Far East, expressing the Group's desire to support the Regional Investment Initiative. The Working Group's private sector industry groups proposed over 30 initiatives, including a proposal to create a Russian Far East regional financial guarantee fund, an informational web site which could help link Russian and U.S. business people, and a Russian Far East Tourism Association.

In FY 1998, the Working Group plans to complete the pilot phase of the Clear-Pac project and set up two service bureaus on the West Coast and in the Russian Far East to initiate customs facilitation operations, including transmission of data and shipments. The Working Group Secretariat plans to carry out many of the private sector initiatives which were proposed at the Kamchatka meeting, including a joint, bilingual informational web site, a Russian Far East tourist association, and development of regional investment guarantee funds.

U.S.-Ukraine Committee on Trade and Investment (CTI): One of four committees under the U.S.-Ukrainian Binational Commission, the CTI held meetings in Kiev in January 1996, and in Washington in May 1997. The

Committee's principal objectives are to identify barriers to expanded trade and investment, facilitate commercial projects and assist in dispute resolution; identify impediments to, and promote U.S. industry participation in developing key sectors of Ukraine's economy, specifically energy and agribusiness; and serve as a vehicle to identify issues that limit access to each other's markets. In FY 1997, the CTI established a Subcommittee on Business Facilitation to help resolve specific issues raised by U.S. firms in Ukraine and developed a list of specific projects which would be the subject of particular attention; launched an initiative aimed at improving the transparency of Ukrainian Government processes affecting trade and investment; and agreed to establish an agribusiness task force. In FY 1998, the CTI will conduct a policy-level dialogue with the Ukrainian Government to improve systemic investment-climate issues in the areas of licensing, procurement, and ethics. In addition, the CTI will encourage the Ukrainian Government to develop effective dispute resolution mechanisms, improve judicial enforcement, and promote continued deregulation and liberalization of the economy, particularly in areas that affect business development and trade.

U.S.-Kazakhstan BDC: During a U.S.-Kazakhstan Joint Commission meeting in Almaty in November 1996, the U.S.-Kazakhstan BDC discussed further steps to increase trade and investment. The BDC sponsored a reverse trade mission to the Offshore Technology Conference in Houston, which was attended by then-president of KazakhOil Balgimbaev (now prime minister) and Minister of Ecology Bayev, who subsequently attended a BDC-sponsored interagency meeting to discuss outstanding oil and gas issues, as well as an industry roundtable. In June, the U.S.-Kazakhstan BDC also sponsored an interagency meeting with Deputy Prime Minister Yesimov and a senior Kazakhstani delegation to discuss outstanding issues, including tax exemption, corruption and open tendering. In November 1997, the BDC held the fourth meeting of its executive council in conjunction with the visit of Kazakhstani President Nazarbayev. The U.S.-Kazakhstan BDC plans to hold two more meetings in FY 1998, focusing on the creation of fair and transparent tax inspection procedures, encouraging the Government of Kazakhstan to implement international standards regarding VAT determination, and encourage changes in natural resource licensing and customs procedures to cut bureaucratic red tape.

After many years of difficult negotiations, a major milestone was reached in FY 1997 with the signing of a historic agreement on December 6 on the restructuring of the Caspian Pipeline Consortium (CPC) by the Governments of Russia, Kazakhstan and Oman, along with several oil companies, including Chevron, Mobil and Oryx. The CPC pipeline is a key to unlocking the petroleum reserves in Kazakhstan by providing a major outlet to the world market through the Black Sea. The Department of Commerce and U.S. Ombudsman for Energy and Commercial Cooperation for the NIS led the U.S. Government's effort to bring this agreement to conclusion through numerous discussions and negotiations.

BUSINESS AND ECONOMIC DEVELOPMENT PROGRAMS

U.S. DEPARTMENT OF COMMERCE - BUSINESS INFORMATION SERVICE FOR THE NIS (BISNIS)

BISNIS was established in 1992, in response to the tremendous demand for information about the new emerging markets in the NIS. BISNIS provides U.S. companies with a tremendous advantage over their international competitors in its role as a clearinghouse for commercial intelligence, while at the same time assisting in the development of the newly emerging market economies of the NIS. The challenging and often difficult commercial environment in the NIS provides U.S. companies of all sizes with an unique opportunity to establish themselves in these potentially very lucrative commercial markets. This "win-win" approach provides the United States and the NIS with mutual trade and investment benefits while supporting viable commercial economies. As of the end of FY 1997, BISNIS' support of U.S. companies had facilitated almost \$1.6 billion of export and investment transactions in the NIS.

BISNIS' international trade specialists, whose expertise covers each of the 12 NIS countries and all major industry sectors, provide one-on-one counseling, basic business information and referrals, to U.S. companies of all sizes doing business in the NIS. The international trade specialists, together with the BISNIS Overseas Network, provide U.S. companies with time-sensitive trade leads, the latest information on export and project finance, including financing made available by TDA, OPIC, Eximbank, and the various NIS enterprise funds, as well as insight into developing long-term strategies for NIS markets.

BISNIS also makes available to U.S. companies the latest commercial information about the NIS through its BISNIS Online website, the BISNIS Fax Retrieval System and BISNIS' specialized electronic services. Through the timely dissemination of business information to U.S. companies, BISNIS helps strengthen the U.S. export position in a highly competitive global environment.

Although U.S. exports to the NIS were down slightly (by 2.4 percent) in the first eight months of 1997, there was strong export growth to a number of individual NIS countries, such as Ukraine, Kazakhstan, Uzbekistan and Georgia. Examples of successful transactions supported by BISNIS in FY 1997 are provided below:

- BISNIS assisted a small, Florida-based consulting firm that served as the negotiator in a \$5 million digital communications network joint venture between a U.S. company and a Russian consortium in Siberia.
- BISNIS' "well-targeted reports on Russian banking have helped us to position our [trade-finance software] products to address the real needs of these emerging market banks," wrote George Capsis, President of International Market Development of New York. According to Mr. Capsis, BISNIS helped his firm identify Russia's leading banks in the area of trade. "We expect to close \$2 million in sales as a direct result of [BISNIS'] continuous and generous help."
- A large Florida-based electronics and communications firm sold \$2 million in telecommunications equipment in the NIS, partially as a result of BISNIS assistance.
- A Kansas State legislator and editor/publisher who led a Kansas trade delegation to Russia's Voronezh *Oblast* (Region) in September partially attributed the more than \$12 million in resulting U.S. exports of soybeans to the preparatory assistance that BISNIS provided to him.
- With assistance provided by BISNIS, a large Virginia-based firm won several contracts, one of which was for \$123,000 in sales of computer services to firms in several NIS countries.
- The president of Virginia-based Applied Information Technologies, Inc. credits BISNIS with providing his firm with timely information on developments in the NIS telecommunications industry, maintaining a web site that provided valuable information, providing an opportunity to meet face-to-face with visiting NIS professionals at BISNIS-hosted events, and most importantly, facilitating his firm's partnership with a Russian company that generated an estimated \$100,000 worth of business in 1997.
- With the help of BISNIS trade specialists, a large Missouri-based industrial and consumer electronics firm started selling electronic equipment and systems in Eastern Europe, and subsequently continued its expansion eastward, with sales of \$50 million in the NIS. The firm is now continuing to expand into the Urals and Caspian regions.

In FY 1997, BISNIS continued to explore new methods to provide the best possible information in a timely manner to U.S. companies:

BISNIS Online: In FY 1997, BISNIS Online disseminated 2.9 million documents on the commercial environment of the NIS, an increase of 5.6 times from the FY 1996 level of 520,000. The advantages of online document distribution are enormous: it is faster and more economical than handling printed documents. BISNIS Online provides BISNIS clients with 24-hour access to the latest information on trade and investment opportunities, commercial cables from our embassies, and other valuable informational resources.

BISNIS Bulletin, a monthly newsletter, was downloaded 77,360 times through BISNIS Online, a 25-percent increase from the year before, in addition to its hard-copy subscriptions. (see BISNIS Publications below)

State Exports to the NIS is an electronic site which features 1996 export figures for each U.S. state. Users point and click on individual states for 1995-96 statistics on exports to the NIS. This site has been visited 7,072 times since it was created in September 1996.

Russia Regional Information, a new feature in FY 1997, reorganized BISNIS' regional and country-specific commercial information. This new electronic site features highlights the importance of regions outside of Moscow. The point-and-click map of Russia's regions simplifies the process of retrieving commercial

information and was the second most-utilized feature on BISNIS Online in FY 1997, disseminating 178,152 documents.

BISNIS' **Sources of Finance** publication was downloaded through BISNIS Online more than 39,000 times in FY 1997, an increase of 13,000 requests over last year.

Both **Search for Partners** and **Trades & Tenders** are now accessible through BISNIS Online. During FY 1997, both of these BISNIS publications were downloaded on-line 49,348 times by BISNIS clients. (see BISNIS Publications below)

BISNIS E-mail Broadcast Service: Introduced last year, this new service allows BISNIS trade specialists to take a proactive approach to communicating to U.S. businesses the latest in "real time" commercial intelligence, including late-breaking trade leads, opportunities and other developments in the NIS. BISNIS clients can respond directly to individual trade specialists with requests for additional information. More importantly, this feature allows U.S. companies to tailor their requests to meet their informational needs by registering for the service via BISNIS Online.

- Some 5,000 U.S. companies are currently utilizing this service, up from the June 1997 level of 3,000.
- On average, 325 BISNIS broadcasts were e-mailed per month, disseminating more than 11,000 reports to U.S. businesses in FY 1997.
- **BISNIS Briefs**, a semiweekly electronic newsletter, announces updates on promotional events, trade and investment opportunities, and periodic reports relating to the changing business environment in the NIS. A total of 3,000 U.S. companies have requested this electronic bulletin, up from 1,000 last year.
- New in FY 1997, **BISNIS Trades & Tenders**, a biweekly electronic publication, transmitted approximately 300 time-sensitive trade leads to more than 5,000 U.S. companies.

BISNIS' international trade specialists, who have substantial expertise in the economies, commercial environments, and industry sectors of the countries they cover, are critical to BISNIS' operations. The value added by these specialists is essential to the development of the qualitative information and analytic research necessary to respond to ever-more sophisticated inquiries from the U.S. business community.

Representatives of **BISNIS' Overseas Network**, who are located at U.S. Commercial Service offices, U.S. embassies and consulates throughout the NIS, collect and transfer information to BISNIS trade specialists, who synthesize the information into concise commercial reports for dissemination through the BISNIS Online homepage, BISNIS' fax retrieval system, BISNIS publications (listed below) and e-mail broadcasts.

BISNIS Publications

In FY 1997, BISNIS published 11 eight-page issues of the **BISNIS Bulletin**, covering 11 out of 12 NIS countries (all except Belarus). The **BISNIS Bulletin** also published full-length articles on the activities of other U.S. Government-funded technical assistance programs, including the U.S.-Russia Investment Fund (TUSRIF), the Building Technology Information Center of Russia (operated by the NAHB Research Center), and the Commerce Department's Special American Business Internship Training (SABIT) Program and American Business Centers (ABCs).

The **BISNIS Bulletin** expanded its financial coverage, focusing on practical trade-finance subjects, drawing on expert private-sector contributors for articles on the use of supplier credit, forfeiting, and confirming a letter of credit from a Russian bank. These articles supplemented the **Bulletin's** more traditional "news-you-can-use" coverage of Eximbank, OPIC and the EBRD. Information published in the **BISNIS Bulletin** facilitated exports of at least \$2 million in U.S. products in FY 1997.

In addition its regular "Regional Corner" feature, the **BISNIS Bulletin** published numerous articles on Russian regions were published in the **BISNIS Bulletin** in FY 1997, including twelve articles on such regions as Tatarstan, Kaliningrad, Novosibirsk, Nizhniy Novgorod, the Russian Far East (including Vladivostok and Sakhalin Island), and Krasnodar, as well as on topics such as banking in Russia's regions.

BISNIS Search for Partners is a monthly newsletter which functions as a matchmaking service by listing NIS companies looking for U.S. partners. It is an excellent source of information for potential sales of U.S. goods to the NIS, and it fosters long-term business relationships with NIS companies. During FY 1997, **Search for Partners** was completely revised, placing greater emphasis on the quality of proposals, enhancement of the application process, and expansion of new trade and investment opportunities by increasing promotion and availability.

- For the first time in FY 1997, **Search for Partners** was made available biweekly via e-mail broadcasts. The monthly hardcopy publication published an average 840 trade and investment opportunities in each issue, and was distributed to more than 30,000 U.S. companies in the United States, as well as to U.S. companies with offices in Western and Central Europe.
- The August edition of **Search for Partners** featured joint-venture opportunity leads identified by Peace Corps volunteers. In Cheboksary (a city near Nizhniy Novgorod), three Russian companies were in negotiations with U.S. firms as a result of eight leads published in **Search for Partners**. The International Institute of Management in Cheboksary received almost 70 responses and assigned two students to match the responses with appropriate local businesses in Cheboksary.

BISNIS Trades & Tenders is a biweekly electronic publication which is also available via the BISNIS Fax Retrieval System. In FY 1997, **Trades & Tenders** published approximately 300 time-sensitive trade leads, including sales opportunities financed directly by NIS enterprises, as well as numerous procurement opportunities financed by USAID, the World Bank, the European Bank for Reconstruction and Development (EBRD) and other bilateral and multilateral funding sources open to U.S. companies.

BISNIS Outreach strengthened its relationships with NIS counterparts, including regional and municipal administrations, chambers of commerce, and similar entities that reinforce the development of market-based economic relations. In FY 1997, BISNIS hosted more than 40 official NIS delegations and exchange groups, and arranged for briefings to include U.S. Government technical assistance providers such as the Commerce Department's Special American Business Internship Training (SABIT) Program and Commercial Law Development Program (CLDP), and the Citizens' Democracy Corps.

- In FY 1997, BISNIS sponsored, organized, and/or promoted more than 25 major events, including three business roundtables with the Presidents of Azerbaijan, Tajikistan and Kyrgyzstan; BISNIS' NIS Embassy Day, which was held to commemorate BISNIS' fifth anniversary and was attended by more than 225 U.S. companies; a NIS-wide briefing for 200 U.S. businesses; the BISNIS/Kennan Institute Russian Far East Business Forum, which was attended by 150 U.S. companies; and a business roundtable for Moldova's Minister of Telecommunications.

- BISNIS also promoted U.S. trade and investment in the NIS by targeting U.S. companies currently doing business in Western and Central Europe. In FY 1997, BISNIS participated in four seminars sponsored by the U.S. Trade Information Center (USTIC) in Brussels, Belgium. The audience consisted of U.S. companies located in Western and Central Europe that are interested in expanding their trade and investment in the NIS. As a result of these events, BISNIS now sends the *BISNIS Bulletin* and *Search for Partners* to more than 220 U.S. companies located in Western and Central Europe, up from 73 in FY 1996.

BISNIS' Training Program serves as a vital link with newly appointed U.S. ambassadors and senior commercial officers destined for NIS posts. BISNIS provides a comprehensive briefing for each participant on the collection, exchange and distribution of trade leads, tenders and other business information. As a result, BISNIS is able to contribute to the coordination of U.S. Government assistance efforts to the transitioning NIS economies. In FY 1997, briefings were provided to the new U.S. ambassadors to Kyrgyzstan, Uzbekistan, Russia and Belarus.

Awards: In FY 1997, BISNIS was nominated for the Commerce Department's Bronze Award. BISNIS has received the Bronze Award once and has been nominated three times since 1992. BISNIS Online continued to receive the Point Communications "Top Five Percent" Award for the quality of its homepage, as well as recognition from Russia Alive for being one of the world's top Russia-related sites on the World Wide Web.

U.S. DEPARTMENT OF COMMERCE - AMERICAN BUSINESS CENTER (ABC) PROGRAM

The goal of the ABC Program to promote the rapid expansion of U.S. trade and investment NIS, with an emphasis on small and medium-sized U.S. firms. Seven ABCs are operated by private-sector entities through cooperative agreements with the Department of Commerce. These "solo" ABCs are located in NIS cities where there is commercial potential, but no U.S. and Foreign Commercial Service (US&FCS) presence. The solo ABCs are located in the following cities in Russia: Nizhniy Novgorod, Yekaterinburg, Volgograd, Chelyabinsk, Novosibirsk, Yuzhno-Sakhalinsk and Khabarovsk. In addition, five ABCs are operated by and co-located with the US&FCS posts in St. Petersburg and Vladivostok, Russia; Kiev, Ukraine; Almaty, Kazakhstan; and Tashkent, Uzbekistan.

The ABCs provide American companies with a broad range of business development and facilitation services, including international telephone and fax services; short-term office space; seminar and exhibition space; assistance with arranging appointments; secretarial assistance; word-processing equipment; interpretation and translation; photocopying; market research; and counseling on local market conditions and business practices. The ABCs also provide significant benefits to NIS firms, including business training, technical assistance, and use of a commercial library which serves as a repository for commercial, legal and technical information. The ABCs enhance the ability of NIS firms to become viable trade and investment partners for U.S. firms.

Throughout FY 1997, the privately operated ABCs in Russia remained under pressure from Russian customs and tax authorities to pay duties and value-added taxes (VAT) in defiance of the 1992 Bilateral Assistance Agreement stipulations exempting U.S. Government-funded technical assistance programs from taxation. Specifically, during the second and third quarters of FY 1997, Russian customs and federal tax authorities threatened ABC Yuzhno-Sakhalinsk with imminent closure for alleged non-payment of duties and VAT. In early April, a letter from Commerce Department Counselor Jan Kalicki to Deputy Minister of Finance Sergei Shatalov addressed the problem of taxation of assistance in general and the Yuzhno-Sakhalinsk ABC in particular. Counselor Kalicki asked Mr. Shatalov to help convey awareness of the ABCs' tax-exempt status to appropriate tax and customs authorities. By mid-April, the director of the Russia's State Tax Inspectorate had stopped the tangential threats made to the Yuzhno-Sakhalinsk ABC through its landlord. In late April, First Deputy Prime Minister Chubais issued official letters to the heads of the State Tax Service and the State Customs Committee, instructing them to adhere to the provisions of the April 1996 Pickering-Panskov Agreement and to observe interim tax and customs exemptions for U.S. Government assistance programs until the Duma passes permanent legislation on this issue.

In early October 1996, the ABC in Tashkent, Uzbekistan was officially inaugurated, with U.S. Ambassador Stanley Escudero and Commerce Department Counselor Jan Kalicki sharing ribbon-cutting honors with Prime Minister Sultanov. Key U.S. and Uzbekistani business and government leaders attended the grand opening, which enjoyed extensive media coverage on local and national television and in the newspapers. Also in October, an audit resolution terminating the cooperative grant for the ABC in Minsk became final. In November 1996, approximately \$740,000 of appropriated funds were deobligated from the ABC in Minsk. Meanwhile, the

Foundation for Russian American Economic Cooperation assumed management responsibility for the ABC in Khabarovsk and began reconciling expenses and revenues, and resolving bill-collecting and inventory issues.

In mid-January 1997, the Department of Commerce issued a *Federal Register* request for competitive proposals from currently operating ABCs to seek additional ABC funds of up to \$150,000 per center. All but one of the privately run ABCs bid the total of \$650,000 in funding that was made available as a result of the deobligation of funds from the closing out of the ABC in Minsk. Two very successful ABC conferences on trade and investment in the NIS were held in Frankfurt and Brussels in mid-January 1997. The conferences provided information about the ABCs' services to a total of 137 U.S. companies located in Europe. ABC directors shared their knowledge of market opportunities in their respective region, and representatives from the U.S. Trade and Development Agency (TDA), Eximbank, and the European Bank for Reconstruction and Development (EBRD) presented financing strategies for investing in the NIS region.

In order to expand the ABC Program's ability to inform the U.S. public about its services and to allow ABC program staff to disseminate information more efficiently through the Internet, the program office developed an ABC World Wide Web site independent from the BISNIS homepage. Visitors to the new ABC homepage can find general information about the ABC Program, as well as detailed information about each center and its host city. The site is also directly linked to other U.S. Government and private-sector Internet resources. The ABC homepage is located at the following address: <http://www.itaiep.doc.gov/bisnis/abc/abc.htm>

In September 1997, the ABC Program published a notice in the *Federal Register* announcing a competitive award process for the ABCs in the following five Russian cities: Khabarovsk, Nizhniy Novgorod, Yuzhno-Sakhalinsk, Novosibirsk and Yekaterinburg. Awardees were asked to share fifty percent of the costs of setting up and managing the ABCs in Russia for a 12-month period. The individual awards will not exceed \$200,000. In addition, preparations began for turning over control of the ABCs in Vladivostok and St. Petersburg to the US&FCS, and as of October 1, 1997, these two ABCs were no longer funded by USAID.

Throughout the year, efforts were made to cut the ABC Program's advertising costs by focusing on a more targeted market, thus creating more responses per dollar spent on promotional materials. To save money and maintain consistent exposure, ABC advertisements were strategically placed free of cost in publications reaching U.S. markets, including *Business America* and *BISNIS Bulletin*. A new advertising strategy for Moscow saved over \$11,000. In Europe, the ABC Program advertised in *Business Links*, which reaches virtually every one of the estimated 8,000 U.S. companies located in the Benelux countries.

U.S. DEPARTMENT OF COMMERCE - CONSORTIA OF AMERICAN BUSINESSES IN THE NIS (CABNIS)

The Commerce Department's CABNIS Program is a matching-grant program designed to strengthen the commercial presence of U.S. firms in the NIS. The Department of Commerce has issued grant awards of approximately \$500,000 each to 12 U.S. nonprofit organizations, which then worked to help U.S. for-profit companies enter the markets of the NIS countries, as well as to enhance private-sector development in the NIS. CABNIS grantees have assembled industry-specific consortia of U.S. firms interested in doing business in the NIS, and have used CABNIS seed money to establish NIS offices for these consortia. Among the industries represented by CABNIS consortia are agribusiness, biotechnology, coal energy, environment, food processing, information systems, modular housing, semiconductor equipment and materials, and telecommunications. On-site, consortia staff have provided a wide range of export facilitation services tailored to meet the needs of U.S. exporters. In addition, consortia staff have worked with NIS policy-makers, entrepreneurs, trade and professional associations, and academic institutions to develop meaningful business relationships, develop early commercial intelligence on new trade and investment opportunities, help develop local industry and product standards, and promote state-of-the-art U.S. technology.

The CABNIS Program's two active awards include one to the American Agribusiness Equipment Consortium and one to Partners in Economic Reform, both of which have representatives and/or contacts in Moscow and Almaty. Although 10 out of the 12 CABNIS grants have expired, several of these former grantees are still actively pursuing business opportunities in Russia, including the Telecommunication Industry Association's office in Moscow, the London office of the Port Authority of New York and New Jersey, and the Moscow and St. Petersburg offices of the Virginia Commonwealth University. Other CABNIS grantees are helping U.S. traders interested in the NIS by providing them with inside trade information sourced through the commercial intelligence network established with CABNIS support.

To date, the CABNIS consortia have facilitated more than \$70 million in U.S. business, with a substantial amount of additional business currently in the development stage. Several U.S. companies have established offices in Moscow as a result of their participation in a CABNIS consortium, which helped them lower their market-entry costs and risks. Both former and current CABNIS grantees are thus providing an avenue for U.S. firms—particularly small and medium-sized enterprises which would otherwise be unwilling or unable to take on the risk of entering the complex NIS markets all by themselves—into the markets of Russia and Kazakhstan.

U.S. DEPARTMENT OF COMMERCE - COMMERCIAL LAW DEVELOPMENT PROGRAM (CLDP)

Assistance to Combat Commercial Crime in Russia

Throughout FY 1997, CLDP provided assistance to the Government of Russia on combating commercial crime. Improvement in the Russian Government's ability to combat commercial crime will enhance the climate in Russia for trade and investment by U.S. companies. In addition, it will help secure Russia's transition to democracy and a market economy. CLDP's activities in this area involve training, exchange programs and other forms of technical assistance. CLDP's work on this project during FY 1997 focused on three principal initiatives. First, in cooperation with the American Chamber of Commerce in Russia, a white paper on commercial crime in Russia was completed, translated and delivered. Second, a database of Russian and U.S. law enforcement resources was distributed to the private sector and government officials in Russia and the United States. Third, seminars on crimes against business in Russia were held in the cities of Moscow, St. Petersburg and Khabarovsk in September. CLDP currently is conferring with U.S. members of the U.S.-Russia Commercial Crime Working Group to plan future activities. The CLDP's database of law enforcement resources in Russia and the U.S. was distributed in hard copy to more than 600 people and was posted on the Internet via the Commerce Department's Business Information Service for the NIS (BISNIS). The seminars on crimes against business were attended by more than 250 people from the private and public sectors in Russia.

WTO Accession Assistance for Russia, Ukraine and Moldova

Throughout FY 1997, CLDP provided technical assistance to the Governments of Russia and Ukraine to facilitate their accession to the World Trade Organization (WTO). CLDP began providing similar assistance to the Government of Moldova in August 1997. These programs help fulfill President Clinton's pledge to assist the NIS to become market-based economies and full-fledged members of the international trading community.

WTO accession necessitates that applicant countries conform their laws and adhere to international agreements that are conducive to creating a market economy and to enhancing international commerce. In abiding by these agreements, Russia, Ukraine and Moldova will make their economic and trade policy formulation more transparent, thus benefiting American business by providing it with greater legal protection as it trades and invests in these countries. WTO accession is typically a multi-year process. Russia, Ukraine and Moldova are currently in the process of supplying information to the WTO Secretariat and the Working Groups handling the accession process for each country. CLDP provides technical assistance as each country prepares for Working Group meetings that are held in Geneva a few times each year. CLDP placed long-term advisors in Russia and Ukraine during FY 1997. Their work was augmented through visits by short-term advisors on specific issues. CLDP's work with Moldova will consist of short-term training and consultation programs conducted in Moldova, Geneva and the United States.

- **Russia:** In addition to the presence of CLDP's Resident Advisor on Trade Issues to the Russian Ministry of Foreign Economic Relations, CLDP sponsored several short-term programs featuring U.S. experts from both inside and outside government. CLDP sponsored two seminars for Russian officials in Washington on the enforcement of intellectual property rights. Russian executive branch officials participated in the first seminar, and judicial officials participated in the second seminar. CLDP also sponsored the participation of U.S. Government officials in a WTO Secretariat-led delegation that visited Moscow in September to provide technical advice on anti-dumping and countervailing duties. Commerce Department officials traveled to Moscow with European Union and WTO officials to provide Russian officials with an improved understanding of WTO anti-dumping rules. In total, more than 100 Russian officials received training and/or participated in consultations.

- **Ukraine:** CLDP's Resident Advisor on Trade Issues to the Ukrainian Ministry of Foreign Economic Relations and Trade completed his duties in August 1997, and was replaced by an interim advisor for the month of September. CLDP supervised also sponsored several short-term programs involving U.S. experts from both inside and outside government. CLDP arranged a study tour in the U.S. for Ukrainian trade officials in March, and sponsored the participation of other Ukrainian Trade officials in a WTO training course in Geneva in April. CLDP also sponsored the visit of a USDA expert to Ukraine for consultations on agricultural trade issues, and arranged the visit of senior Ukrainian trade officials to the United States for meetings in August. In total, more than 100 Ukrainian officials received training and/or participated in consultations.
- **Moldova:** CLDP sent a short-term advisor on intellectual property rights to Moldova in August to advise Moldovan officials on compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). CLDP also conducted a seminar on technical standards under the WTO in Moldova in September. In total, more than 50 Moldovan officials received training and/or participated in consultations.

U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

The SEC's technical assistance and international training programs for the NIS are designed to benefit both the United States and NIS countries. Benefits to the United States include an improved foreign investment climate and a regulatory foundation for foreign offerings in the United States. The encouragement of U.S.-style market structures and regulatory principles also promotes open entry and competitive market conditions that may be enjoyed by U.S. participants and service providers. The SEC's strategy is to incorporate technical assistance into its other activities to facilitate international securities regulatory contacts and cooperation.

International Training Institutes

The SEC's International Institute for Securities Market Development (the "Market Development Institute") is an intensive two-week program of lectures, panels and workshops held each spring at the SEC's Washington, D.C. headquarters. Designed for senior regulatory and stock exchange officials, the Market Development Institute is intended to promote market development, capital formation, and the building of sound regulatory structures in emerging market countries. The Market Development Institute's faculty includes SEC Commissioners and senior staff, and outside speakers from academia, multilateral development institutions, stock exchanges and the NASD, and investment banking, law and accounting firms. Over 600 delegates from 94 countries have participated in prior Market Development Institutes. Over 30 delegates from NIS and Central European countries attended the 1997 Market Development Institute.

The SEC has expanded upon the Market Development Institute concept by inaugurating a one-week International Institute for Securities Enforcement and Market Oversight (the "Enforcement Institute"). The Enforcement Institute is offered during the fall. Speakers are drawn primarily from the SEC's senior enforcement and inspections staff. The program focuses on practical techniques for conducting investigations, market surveillance, and inspections of broker-dealers, mutual funds and investment advisers. Over 380 securities regulators from 60 countries, representing both developed and developing markets, have participated in prior Enforcement Institutes.

Other U.S.-Based Training Programs

With assistance from the U.S. securities industry, the SEC has arranged a number of short-term internships for Ukrainian securities personnel, including internships for many of the participants in its Market Development and Enforcement Institutes. As a new securities commission was established in Ukraine, special training programs were provided at SEC headquarters for Ukrainian commissioners. Overall, through the two annual institutes and the other training programs described herein, the SEC provided U.S. training for 341 foreign participants from 91 countries during FY 1997. The SEC's FY 1997 programs for the NIS included the following:

- training programs in Kiev, Ukraine during August, September and October 1996 on capital markets regulation and clearance and settlement;

- a November 1996 training program in Russia on regulation of markets and market participants, which was co-sponsored with the Securities Department of the Russian Central Bank (RFCSM), and the Financial Services Volunteer Corps (FSVC);
- a December 1996 conference in Washington to assist Russian experts with the drafting of legislation regarding shareholder rights, oversight of self-regulatory organizations and arbitration of securities disputes.
- a February 1997 training program in Moscow on bank securities activities, co-sponsored with the Russian Central Bank, USAID and the FSVC;
- the Second Annual NIS/Central Europe Enforcement and Market Oversight training program presented in March 1997 at SEC headquarters for 61 delegates from 11 countries;
- an April 1997 clearance and settlement training program in Almaty, Kazakhstan for market participants from all five Central Asian countries;
- a July 1997 training program in Washington on the review of issuer disclosure documents for over 40 participants from Russia, Ukraine and Lithuania; and
- an October 1997 training program in Moscow for over 35 persons, including directors and deputy directors of all 15 of the RFCSM's regional offices and headquarters staff responsible for regional office coordination.

In addition to the above programs, senior SEC staff members participated in training or consulting assignments in Moldova, Russia and Ukraine. In delivering these programs, the SEC worked closely with private-sector securities experts and in the case of overseas programs, on-site assistance providers. The SEC translated into Russian over 80 key regulatory documents and training outlines, which were made available to USAID, regulatory agencies and other assistance providers throughout the NIS.

Legislative and Regulatory Analysis

A sound legal and regulatory infrastructure is a prerequisite to many other forms of technical assistance to emerging NIS securities markets. The SEC's staff provided analysis and commentary on the securities laws and regulations of Russia, Ukraine, Armenia and Moldova. The staff often coordinated its work with other assistance providers, such as the American Bar Association's Central and East European Law Initiative (ABA/CEELI) and other in-country advisors.

U.S. DEPARTMENT OF THE TREASURY - TECHNICAL ASSISTANCE

Since 1992, the Treasury's Department's Office of Technical Assistance has been providing resident advisors to NIS governments to assist with the transition from command to market economies. These advisors work with senior-level finance ministry or central bank counterparts in the following areas: budget policy and management, financial-institution policy and regulation; government debt issuance and management, and tax policy and administration. An additional program in the enforcement of financial crimes was initiated in FY 1997, under which the first missions will begin in FY 1998. Resident advisors are supported by experts and technicians. Most of the program's successes consist of an accumulation of small "victories"—giving daily advice, ideas and perspectives to senior counterparts on a wide range of issues. In FY 1997, the Treasury Department placed advisors in Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia and Ukraine. (see individual country assessments)

U.S. DEPARTMENT OF AGRICULTURE (USDA) - EMERGING MARKETS PROGRAM (EMP)

USDA's Emerging Markets Program (EMP) funds projects that will increase U.S. agricultural exports to emerging markets around the world. The program has \$10 million available worldwide each year. In FY 1997, EMP provided over \$1.15 million for the following NIS-related activities:

Cochran Fellowship Program (\$300,000 - NIS-wide): This program provides short-term training in the United States for agriculturalists from middle-income countries and emerging democracies. Cochran Fellows have learn about Western-style agribusiness management, rural credit, international agricultural trade, marketing and policy, and other issues. The NIS component of the Cochran Fellowship Program is funded mainly through the FREEDOM Support Act. (see Training and Exchange Programs section below)

Transportation and Food Marketing Conference for the Russian Far East and Eastern Siberia

(\$68,131- Russia): EMP jointly sponsored a transportation and food marketing conference on the Russian Far East and Eastern Siberia for experienced exporters of U.S. food products. The conference, which built upon a similar conference held in October 1996, was held in Portland (Oregon) in October, immediately following a working group meeting under the Gore-Chernomyrdin Commission.

Promotion of Beef and High-Value Products in the Russian Far East (\$39,158 - Russia)

EMP supported a trade mission, two trade seminars, and promotional beef, high-value and value-added product tastings conducted by the Oregon Beef Industry in Vladivostok and Khabarovsk in September 1997.

Statistical Reporting System Development (\$400,000 - Russia, Ukraine and Kazakhstan)

EMP helped improve the capability of Russia, Ukraine and Kazakhstan to produce accurate and timely statistics for their agricultural sectors, in order to promote efficient functioning of agricultural markets. Experts from USDA's National Agricultural Statistics Service are developing and implementing this program with their NIS counterpart agencies, such as Russia's State Statistics Committee (GosKomStat). This activity defines the process for an improved program of collection, analysis and dissemination of agricultural statistics. While the target for this technology is the public sector, the results support the emerging private sector in agriculture and agribusiness. A nationwide sample survey of private farms is planned for FY 1998.

Resident Policy Advisor (\$199,275 - Ukraine): EMP supported the placement of an agricultural policy advisor in Kiev from 1994 through July 1997. The advisor, whose office was located in the Ministry of Agriculture in Kiev, worked with Ukraine's Minister of Agriculture and Food, and helped the Minister and other Ukrainian Government officials with agricultural reform policy decisions. The advisor's assistant will continue to staff the office and provide assistance to Foreign Agricultural Service (FAS) personnel in Ukraine.

Orange Juice Processing and Distribution (\$50,000): In FY 1998, workers at new orange juice processing facilities will be trained in handling, processing and distribution to reconstitute orange juice concentrate shipped from Florida.

Market Feasibility Study/Assessment for Honey (\$100,000 - Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan): EMP helped carry out an initial market study and industry assessment of Central Asia. The Honey Board is prepared to bring buyers from these nations to attend a marketing seminar in the United States and to meet U.S. suppliers, assuming the results of the assessment are positive.

USAID FARMER-TO-FARMER PROGRAM

In 1991, a three-year, \$30 million Special Initiative of USAID's Farmer-To-Farmer (FTF) Program was authorized as one of the first U.S. Government assistance programs for the NIS countries, funded from Public Law (P.L.) 480 Title II resources. In FY 1997, USAID provided an additional \$7.33 million in P.L.-480 resources to continue the program through September 1998..

The objective of the NIS component of the Farmer-to-Farmer Program (NIS-FTF) is to provide short-term U.S. agricultural technical assistance, on a people-to-people basis, to facilitate an orderly transition to a free-market economy. The FTF Program is an effective and flexible mechanism for transferring the vast technology, knowledge and skills of U.S. farmers and agribusiness entrepreneurs to farmers, farm groups and agribusinesses in the NIS. The program utilizes the expertise of U.S. farmers, agriculturalists, land grant universities, private agribusinesses and non-profit farm organizations on a voluntary basis in response to local needs identified by host country farmers and organizations. The NIS-FTF Program is implemented by four grantees: Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA), the Citizens' Network for Foreign Affairs (CNFA), Land O'Lakes (LOL) and Winrock International.

As of the end of FY 1997, U.S. farmers and agricultural professionals had completed 2,839 FTF assignments to provide assistance to host country farmers, agribusinesses and agricultural organizations in the 12 NIS countries. These FTF volunteers are not overseas development professionals but rather individuals who have domestic careers, farms and agribusinesses, or are retired and who want to participate in development efforts. FTF volunteers have come from 49 of the 50 states. In FY 1997, a total of 418 FTF volunteer assignments were completed in the 12 NIS countries:

	<u>FY 1997</u>	<u>CUMULATIVE TOTAL</u>
Armenia	16	120
Azerbaijan	13	27
Belarus	16	104
Georgia	14	48
Kazakhstan	49	335
Kyrgyzstan	30	156
Moldova	25	104
Russia	142	1,368
Tajikistan	13	29
Turkmenistan	20	76
Ukraine	65	395
Uzbekistan	15	77
TOTAL	418	2,839

As the NIS-FTF Program has evolved, there has been a shift away from assistance to individual farmers, government organizations and agricultural education institutions to increased assistance to farmers' associations and cooperatives, agribusinesses and agricultural credit/financial institutions. Over the life of the program, NIS-FTF volunteers have been assigned to agribusinesses (31 percent), farms (19 percent), farmers' associations and cooperatives (19 percent), agricultural credit and financial institutions (11 percent), agricultural education institutions (10 percent), and government (4 percent). In FY 1997, FTF volunteer activity increased in both Azerbaijan and Tajikistan, with 13 assignments each, which nearly equaling the cumulative number of assignments from previous years.

The NIS-FTF program is providing targeted support to selected USAID-funded activities. There is increased cooperation between the FTF Program's implementing organizations and other donor agencies to link support to FTF-assisted host organizations. In addition, the FTF implementors have been increasingly successful in leveraging additional resources to support their host organization, such as credit funds from Mercy Corps and grant funds from the Eurasia Foundation. While the FTF Program provides no funding for U.S. training, the FTF implementors actively seek training opportunities and recommend host candidates for training under USDA's Cochran Fellowship Program and others.

Under a Gore-Chernomyrdin Commission initiative, FTF volunteer reports for assignments in Russia are being made available to U.S. businesses. USDA is establishing a webpage on the Internet that will provide information

on FTF volunteer reports from Russia. If a U.S. business is interested in receiving a particular report, they can request it directly from the FTF implementer.

Examples of the impact of the NIS-FTF Program include the following:

- Four FTF volunteers conducted five regional credit union training workshops for over 230 artisans, farmers and rural businessmen. As a result, 6 new credit unions were established and 6 more are being formed with funding from Mercy Corps.
- In collaboration with the World Bank, an FTF volunteer assisted in drafting rural financial and credit union legislation to be presented to the parliament.
- An FTF implementer has been assisting a local NGO by pairing each FTF volunteer with one of their specialists which has turned short-term assistance into long-term assistance. The capability of the local NGO has been developed to the point that local and foreign agencies have begun to use the local NGO's specialists.
- Two FTF volunteers representing the Future Farmers of America (FFA) successfully started an association of young farmers that will be modeled after the FFA.
- An FTF volunteer assisted in the creation of a national park, including help to establish policies, training in park management and operations, devised ways to supplement the parks meager budget and suggested improvements for draft environmental legislation.

In FY 1998, a total of \$7.33 million in P.L. 480 funds will be available for the FTF Program. The FTF implementors plan to complete about 470 FTF volunteer assignments in the NIS. The focus of the NIS-FTF Program will continue to be on agribusiness development, agricultural banking and credit, agricultural processing, marketing, agricultural/business training, and privatization. In response to budget constraints, several USAID Missions are funding volunteer-based programs. For example, the Business Volunteer Program in Russia and the Alliance Program in Ukraine are major Mission-funded programs. In addition, the Governments of Armenia and Moldova have provided funding for supplies and equipment to support FTF volunteer assignments.

U.S. DEPARTMENT OF TRANSPORTATION - FEDERAL AVIATION ADMINISTRATION (FAA)

In FY 1997, the FAA continued to actively work with its NIS counterparts to help them transition to safe and efficient, market-oriented national aviation systems that are open to active participation by the U.S. aviation industry. While Russia continued to be the main focus of the FAA's activities, the FAA expanded its technical assistance to the other NIS countries in FY 1997.

Armenia: A group of about 10 airport officials from Armenia visited FAA Headquarters to discuss airport paving, lighting and runway design. They were accompanied by U.S. airport consultants who were sponsoring their visit.

Kazakhstan: The Deputy Director General of Kazair Navigation visited FAA headquarters in July for a briefing on the U.S. airport system and discussions on financing airport development.

Ukraine: In FY 1997, FAA Civil Aviation Security provided training in airport security management to one student from Ukraine.

Uzbekistan: Representatives of the FAA's International Field Office in New York made two trips to Uzbekistan in June and July to conduct an ETOPS aviation safety assessment.

Russia: FAA personnel helped the Federal Aviation Authority of Russia (FAAR) with the drafting of civil aviation regulations to implement Russia's new air code. The FAA worked towards agreement on a modernized unified air traffic control system, as well as on efforts to expand shorter, more efficient North American to Eastern Asia air routes through Russian Far East (RFE) airspace. Four new polar air routes proposed by international airlines this year met with a favorable initial Russian response. Installation and operation of new digital satellite

communications circuits between the Anchorage and Petropavlovsk-Kamchatsky and Anadyr air traffic control (ATC) centers in the RFE neared completion. Work also continued towards a U.S.-Russian Bilateral Aviation Safety Agreement. Significant progress continued to be made by the FAAR in resolving recommendations from the 1994 joint U.S.-Russian Aviation Safety Evaluation. U.S.-Russian cooperation on aviation safety, security and airport initiatives continued to be excellent.

Alaskan Region activities resulted in agreements to open additional airports, increase capacity, enhance telecommunications and increase cooperation on aviation safety and security in the RFE. Several seminars on aviation safety, security, and airport management were conducted for Russian aviation officials by the FAA. Developmental market and business service activities between Alaska and the RFE continued to grow significantly, supported by an expanding aviation infrastructure. Alaskan Region representatives from the Office of International Aviation and Flight Standards participated in several meetings with representatives from the Russian Far East, the U.S. aviation industry and the USAID-funded American Russian Center of the University of Alaska, to discuss potential assistance in establishing small aviation companies in the RFE to serve remote locations more reliably and cost efficiently.

- Extensive translation of U.S. federal aviation regulations was done to assist the Russian Federal Aviation Authority (FAAR) with the development of civil aviation regulations under the new Russian air code.
- Technical assistance was provided to members of the Gore-Chernomyrdin Commission's U.S. West Coast/Russian Far East Ad Hoc Working Group on aviation issues being addressed by that group.
- In preparation for the possible signing of a U.S.-Russian bilateral aviation safety agreement (BASA), the FAA continued to assess the comparability of Russia's aircraft certification system, as well as the Russians' ability to interpret FAA air-worthiness requirements. The BASA would allow reciprocal acceptance of air-worthiness certifications. There are only a few systemic issues that must be resolved before FAA could recommend that a BASA be negotiated, including the completion of airworthiness certification regulations. During this process, FAA and the Aviation Register are working towards the certification of two Russian aircraft: the Ilyushin IL-96T and the IL-103. The highlight of 1997 activities was the first flight of the IL-96T airplane and the beginning of the FAA's shadow certification activities on this aircraft. FAA anticipates that a BASA can be concluded in 1998, followed by issuance of a type certificate for the IL-103, if the remaining compliance issues are resolved.
- The FAA's Alaskan Region Flight Standards Division conducted or participated in eleven conferences on aviation safety including aviation officials from Alaska, Moscow, Magadan, Yakutsk, Khabarovsk, Oshkosh, Chicago, Milwaukee, Yuzhno-Sakhalinsk and Vladivostok. In addition, the division's representatives conducted a seminar in Russia on U.S. requirements for Russian airlines to apply for operations specifications to the United States. One seminar was also conducted in the USA for Russian aviation officials on general aviation.
- The FAA, the National Transportation Safety Board (NTSB), and the Department of State worked with their Russian counterparts to draft a memorandum of understanding (MOU) in the area of accident investigation. It is hoped that this MOU will be signed at the Tenth Session of the Gore-Chernomyrdin Commission.
- Representatives of FAA Headquarters and Alaskan Region, along with the FAA Senior Representative from Tokyo, attended the seventh Russian-American Coordinating Group for Air Traffic (RACGAT) meeting held in Irkutsk, Russia, in August. This forum provides the means for Air Traffic Service (ATS) providers to informally explore solutions to near and mid-term Air Traffic Control (ATC) problems that limit the capacity or efficiency of their respective ATC systems. During this meeting, considerable discussion was devoted to the development of four polar routes that would link North American mid-continent and east coast cities to China, Hong Kong, Korea, Pakistan and India. These polar routes would be very near to the desired "Great Circle" track, and would also take advantage of moderate upper winds that are found closer to the poles.
- Modular bomb systems (MBS) used for training purposes that were originally purchased in FY 1996 were delivered to regional aviation security officials in the Russian Far East.
- The FAA's Alaskan Region Airway Facilities Division provided enhanced computer hard drives, software, installation, and training on air traffic services inter-facility data communications (AIDC) computers in

Petropavlovsk-Kamchatsky, Russia. This allows for data link communications between the air traffic control (ATC) facilities of Petropavlovsk-Kamchatsky, Russia and Anchorage, Alaska. This software upgrade connects the AIDC equipment in Petropavlovsk-Kamchatsky to the FAA's NADIN II Packet Switched Network. The AIDC equipment in Petropavlovsk-Kamchatsky was assigned an AFTN address. This now allows airlines to send flight plans directly to the AIDC terminal in Petropavlovsk-Kamchatsky. Flight plan messages were received in 1 to 2 minutes. Addressing of duplicate messages to the old AFTN printer at the Petropavlovsk-Kamchatsky ACC took an additional 30 to as long as 90 minutes. This enhancement will greatly speed up and increase the reliability of communications with this location. This equipment enhances aviation safety and increases capacity on the more fuel efficient, shorter air routes U.S. air carriers fly through Russian airspace between North America and Asia. AIDC provides a more positive means of communication between ATC facilities, especially when English (the international standard for ATC communication) is spoken as a second language.

- The FAA's Alaska Region Airway Facilities Division continued its efforts to expedite the installation of FAA leased circuits at Petropavlovsk-Kamchatsky and Anadyr. AT&T, under contract with the Alaskan Region, installed an earth station in Petropavlosk-Kamchatsky. This earth station utilizes the U.S. satellite Aurora II. Since transferring to the American Satellite the voice and data circuits are greatly improved. Work continued on the final portion of the circuit that will provide direct digital service to the Russian ACC. Work also continued on obtaining the licensing necessary to install a similar system in Anadyr, Russia. These circuits will be extended to Magadan and Mys Schmidta when the primary sites are completed. Work is being done to expand these voice and data circuits to Magadan from Petropavlovsk-Kamchatsky and to Mys Schmidta from Anadyr. Our controllers require communications with these locations for the new FANS air routes. The FAA has committed to fund 100 percent of the communications circuits into Petropavlovsk-Kamchatsky and Anadyr for the first five years.

TRAINING AND EXCHANGE PROGRAMS

U.S. INFORMATION AGENCY (USIA) - FREEDOM SUPPORT ACT EXCHANGES

Academic Exchange Programs

Secondary School Exchanges - Future Leaders Exchange Program (FLEX): This program offers an opportunity for NIS students to spend an academic year in the United States to promote mutual understanding among the young people of the NIS and the United States and to help the future leaders of the NIS build a new and open society and establish democratic values and institutions. During FY 1997, 860 out of 4,400 high school students were selected to participate in the 1997-1998 FLEX program. In August, these students arrived in the U.S. eager to begin their year-long programs which included 20 students with physical disabilities. This group brings to 6,725 the total number of NIS students who have participated in the FLEX program since the Freedom Support Act was enacted in 1992. An important component of the FLEX program is the monitoring of what happens to the students when they return to their home countries. A coordinator tracks returnees, assists them with joining alumni associations and aids in the development of activities for alumni.

- A 1995-96 FLEX participant made history by becoming one of the first women to enter the Virginia Military Institute (VMI) this past fall. Not only is she one of the first women, she is the first woman from Russia to earn a full academic scholarship to this institution.
- In 1994, a returned Bradley exchange student founded *Youth for Armenia*, a registered nonprofit, non-governmental organization. Since its creation, the organization has produced a number of training programs and seminars on subjects ranging from life in the U.S. to computer-assisted English language teaching to civil society and its implications in Armenia. This year, the organization received support through USIA's Democracy Funds Small Grants Program to organize a series of seminars in eight regional centers throughout Armenia, followed by a major conference in Yerevan on the question of voter participation and civic responsibility.
- Alumni groups throughout the NIS have worked diligently to establish themselves as private entities. The St. Petersburg alumni have formed a non-governmental youth organization called PRIME - Peers

Reinforcing Integration and Maintaining Equality. Their primary focus is to promote democracy and Russia's integration into political, economic, and social dimensions of the democratic world.

- Alumni in Saratov, Russia formed a town youth organization called Creative Alternatives to Interests of High School Students designed to give teenagers psychological and social support. This organization is sponsored by their *oblast's* (region's) education department.
- The young men and women alumni in Kyrgyzstan organized a "Women for Safe Sex" demonstration in Bishkek in early February. Literature for the demonstration was provided by the Ministry of Health and the United Nations Fund Population Agency.
- In addition to their studies and alumni activities, former FLEX participants have played an active role in community service. Alumni in Tbilisi, Georgia donated time and money to local orphanages. Moscow held clothing drives and charity events for orphans and have been committed to the Ronald McDonald Charities.

FSA Undergraduate Exchange Program: This program provides fellowships to NIS undergraduate students to study at a U.S. college or university for one academic year. These fellowships are in the fields of agriculture, business administration, communications/journalism, computer science, library and information sciences, public policy, and sociology. Since FY 1993, approximately 1,200 NIS students have studied in the United States under this program. In FY 1997, a total of 176 undergraduate students (99 females and 77 males) were selected from an applicant pool of 4,624 students. Of the number of students selected, 31 are currently enrolled in two-year community colleges, and 145 are attending four-year colleges and universities throughout the United States. During the spring and summer months, FY 1996 FSA Undergraduate Exchange Program students returned to their home countries after completing their fellowships. Many of these students participated in summer internships with universities, financial institutions and other businesses and non-governmental organizations. The average GPA for the returning students was 3.35, which demonstrates the high quality of the students selected to participate in this program.

- U.S. Ambassador to Russia James Collins gave the keynote speech during a two-day career forum for USIA undergraduate programs alumni. 220 alumni and business representatives attended the forum organized by Middlebury College's Geonomics Institute. This event was held in support of promoting the development of a market economy and economic reforms. Participants were encouraged to be active in the economic reform process through their professional careers and to consider themselves as vital investors in Russia's infrastructure and important contributors to U.S.-Russian relations.
- Recruiting for the FY 1998 FSA Undergraduate Program began in September. USIA anticipates 4,500 to 5,000 NIS students will apply for fellowships. For FY 1998, selected students will have to complete a program requirement of 40 hours of community service.

FSA Graduate Fellowship Program: This program awards scholarships to NIS university graduates for master's-level study and professional development in the United States. Scholarships are given to fellows in one of the following fields: business administration, communications/journalism, economics, education administration, law, library and information science, public administration, and public policy. Fellows enroll in graduate degree, certificate, professional development, and non-degree programs lasting one to two academic years and work as interns for eight to twelve weeks during the summer following the first academic year. The FY 1997 FSA Graduate Fellowship Program was competed in conjunction with the USIA base budget-funded Edmund S. Muskie Graduate Fellowship Program. A total of 99 FSA Graduate Fellows were selected out of 3,068 applicants. In June, 54 new two-year fellows and 45 new one-year fellows arrived in the United States to join the 50 FY 1996 fellows who are beginning the second year of their two-year program. FSA graduate alumni have been very successful in acquiring positions in their particular areas of study. Many have reached the level of director, senior manager, coordinator or head of department. Of the 900 total alumni, the majority have established careers in education, library science, business administration and public affairs/administration. In December 1996, a reception was held at the our embassy in Moscow for local alumni of the Muskie and FSA Graduate Programs. The 125 alumni who attended used this opportunity to plan future alumni seminars.

- A former FSA Graduate Fellow broke new ground in library science in Armenia. Upon his return from a one-year, non-degree professional development program in the United States, he was offered a position as Director of the Papazian Library at the American University in Armenia (AUA-PL). His first task was to plan

the technological, functional, organizational and physical reconstruction of the entire library. Today, AUA-PL is the only fully automated library in the region. It provides information services using a wide range of printed and electronic sources, including CD-ROMs and the Internet. AUA-PL offers its services to both the AUA community and the general public. It has also become a role model for other libraries in the region in introducing new technologies, services and managerial approaches for the business of library science.

Faculty Exchange Programs

Teaching Excellence Awards: Begun in 1996, this highly successful program recognizes talented teachers, promotes the development of innovative teaching methodologies, and creates ties among teachers and schools in the United States and those in Russia and Ukraine. In FY 1997, 225 Russian and 75 Ukrainian teachers were chosen as regional winners, each receiving \$200 worth of teaching resources and \$2,000 worth of educational equipment or services for their schools. Of the 300 winners, 30 Russian and 15 Ukrainian teachers were selected as national finalists and participated in a seven-week summer program in Washington, D.C. and the University of Delaware. They were joined by a group of high-achieving American teachers for part of their program. Both groups were invited to a White House reception hosted by First Lady Hillary Rodham Clinton.

NIS-U.S. Teacher Exchange Program (NISTEP): This program was developed in 1995 to support educational reform in the NIS by providing opportunities for NIS educators to teach in the United States and U.S. educators to teach in the NIS for one year at the secondary level in order to develop knowledge and skills reflecting democratic approaches and methods. Each participant also completed a curriculum development project. During the second and final year of the NISTEP program, 17 teachers from seven NIS countries—Armenia, Belarus, Georgia, Kazakhstan, Moldova, Russia and Ukraine—completed their year-long programs. In addition, five U.S. teachers were placed in Moldova, Russia, and Ukraine, and a sixth U.S. teacher completed a semester in Belarus. In addition to their teaching responsibilities, all seventeen NIS teachers prepared civic education curriculum projects, under the guidance of a professor from Russell Sage College, for implementation in their home schools.

- One NISTEP participant overcame strong initial resistance to introduce a student government structure at his host school in Novosibirsk, Russia. Under the watchful eyes of an inquisitive faculty and after four weeks of student convention meetings, a new student constitution was signed by students, teachers and the school director in April. The new student government will be elected during the first two weeks of September. By establishing their own government, students gained practical experience in the concepts of democracy and citizenship that the NISTEP alumnus taught in the classroom. His efforts also resulted in a decision by the Los Angeles School Board to donate American English language and civics textbooks to Siberia.

FSA Junior Faculty Development Program (JFDP): This program places young faculty from Russia and Ukraine at U.S. universities for one academic year to conduct research, attend classes, and work with mentors to develop curricula in their fields. These fields include business administration, communications/journalism, economics, law, library administration, library science, public administration, and university administration. After returning to their home countries, Junior Faculty Fellows participate in alumni conferences, give lectures, and help develop institutional linkages. In FY 1997, 27 fellowships were awarded to 22 Russian and five Ukrainian participants. The fellows arrived in the United States in August and September to begin their programs at one of eleven U.S. host universities.

- A U.S. history professor from Mari State University (MSU) in the Mari-El Republic of Russia spent the 1994-95 academic year at Bowling Green State University (BGSU), where he collected materials from the President James K. Polk archives in Knoxville, Tennessee and used them to author the first Russian biography of President Polk. Upon returning to his home university, the professor received a five-year appointment as Vice Rector for International Relations and established the first Russian-American Center, of which he became the director. In addition, the professor has been instrumental in encouraging other MSU faculty members to apply for the JFDP. The 1996-97 program included four faculty members from MSU. MSU has made significant strides towards modernization and reform, including the establishment of extensive and successful collaboration with the state government, and MSU's staff is committed to pursuing creative ways to attract financial support for its programs.
- The Assistant Professor of Ukrainian Literature and Language at the Institute of Ukrainian Studies of Kiev State University was one of the first Ukrainian university-level faculty to participate in the Junior Faculty

Development Program. The professor spent the 1996-97 academic year at the University of Iowa, where she worked with the English Department and the Iowa Writer's Workshop. Upon her return to Ukraine, she worked to establish a university linkage between her home institute and her host university. In August, the two institutions signed a formal agreement of collaboration, through which, nine Ukrainian students will continue degree study at Iowa in the fields of philosophy, law, international relations, and languages during the 1998-99 academic year. A professor from the University of Iowa's Department of History will visit Kiev in February 1998 to discuss further collaboration. The Ukrainian professor has been invited back to Iowa for a short-term visit in 1998 to help encourage other Iowa faculty and students to participate in the exchange with Kiev State University.

"Partners in Education" Program: In FY 1997, USIA launched a new initiative to broaden the exchange of secondary-school social science teachers and administrators. The "Partners in Education" program will provide 90 social science teachers and administrators from Russia and Ukraine with six-week community-based exchange programs, including training and internships, over a two-semester period. These programs will include educators from Nizhniy Novgorod, Rostov, Khabarovsk, Kiev, and Lviv *oblasts*. A second group of participants will be recruited from Krasnoyarsk, Samara, Yekaterinburg, Odesa, and Kharkiv. Twenty U.S. educators will be making reciprocal visits.

FSA Faculty Incentive Fellowship Program: This new program was created in FY 1997 in collaboration with the Open Society Institute's Higher Education Support Project as a three-year pilot project for faculty development in Belarus, Russia and Ukraine. Fellows spend one semester per year at U.S. host universities, developing new teaching methodologies and curricula, and one semester per year at their home universities testing new courses and materials. Several universities in each country were targeted. Fourteen semifinalists were selected from a total of 33 applicants. A selection committee of six university representatives chose eight finalists—one from Belarus, three from Ukraine, and 4 from Russia—to begin their programs in early January 1998.

Professional Exchange Programs

FSA Fellowships in Contemporary Issues: The FSA Fellowships in Contemporary Issues support economic and political reform in the NIS while increasing U.S. understanding of the challenges facing the region. In FY 1997, the program provided 75 research fellowships to NIS policymakers, NGO leaders, and other public- and private-sector practitioners on topics related to the transition to democracy, free markets, and the building of civil society. The program focused on five areas: sustainable growth and development; democratization, human rights, rule of law; public policy; strengthening civil society; and Internet and the communications revolution. Fellows from all 12 NIS countries were selected through an open, merit-based competition and were placed with host advisors at U.S. universities, think tanks, and government offices for three to six months. Fellows conducted research, wrote publications, delivered presentations, participated in conferences, and collaborated with their U.S. counterparts. For the FY 1998 program, recruitment will target practitioners working in the areas of trade and investment, crime and corruption, foreign policy, international security and human rights. An electronic FSA Contemporary Issues journal featuring articles and commentary written by program alumni will be published on the Internet in 1998. Alumni tracking shows that Fellows are applying in their professional fields the knowledge and skills gained during their U.S. programs and are moving into key positions in government, NGOs, and the private sector:

- An FY 1996 Fellow from Almaty was named Deputy Director of the Management of State Property and Access at Kazakhstan's Ministry of Finance, where she helps shape and ensure the future of the country's privatization program.
- An FY 1996 Fellow in environmental law was promoted to the position of Deputy Director of Moldova's Department of Environmental Protection, where she prepared draft laws on air pollution and waste management.
- Another FY 1996 Fellow established and now heads a business incubator in Ternopil, Ukraine. This business development center provides strategic guidance, market information and analysis to entrepreneurs interested in starting small businesses and to managers who are converting their enterprises to accommodate a market-based economy.

Community Connections: This program, formerly known as Business for Russia, offers hands-on programs to businesspeople, local government officials, NGO representatives, educators and legal specialists from Russia, Ukraine, Moldova, Armenia, Belarus and Georgia. Participants are recruited through American organizations with extensive experience in these countries and in close coordination with our embassies. The U.S. host communities offer hours of volunteer time through involvement of host families, internships with local businesses and mentoring by local professionals. Community Connections seeks to foster new ties and strengthen existing ties between U.S. and NIS communities and regions. Once participants are matched with local communities, the host community develops two- to five-week programs based on the participants' professional and cultural interests. In FY 1997-98, an estimated 1,310 participants will take part in the program: 640 from Russia, 400 from Ukraine, 75 from Moldova, 45 from Armenia, 75 from Belarus and 75 from Georgia. Twenty-six U.S. communities hosted 668 participants (221 females and 447 males) during the last two quarters of FY 1997, of whom 379 were businesspeople and 289 were other professionals.

- After returning to Moscow, one Community Connections participant devoted her energies to establishing her own travel agency. Working in collaboration with an American travel agency, she now helps organize tours of Russia that include Russian history, culture and heritage. In addition, she helped organize a four-week Moscow-Vladivostok driving tour for U.S. Government officials aimed at promoting U.S. highway-building technologies and automobiles. Five U.S. senators attended the opening event.
- A group from Moldova was extremely impressed with the way family and domestic violence issues are addressed in the United States. One participant is now working to open a shelter for women and children who are victims of domestic violence, and is being considered for a grant from the embassy-based Democracy Fund. She especially liked the U.S. foster family structure and sees this as a viable alternative to Moldova's costly and ineffective orphanages.
- The owner of a Russian fast-food company credits his Virginia-based experience in the Community Connections program with changing his attitude towards business. He has overcome the stigma previously attached to an academician running a business, and has improved his business by increasing the number of employees, renovating the cafeteria, purchasing new equipment and furniture, acquiring a delivery van, and investing in a computerized system. In addition, he has developed advertising concepts to increase sales and attract new customers, and plans to open three additional shops within the next few years. This past year, he received credit from the Unemployment Center for the creation of fifty new jobs.
- The Deputy Mayor of Azov, Russia praised the value of homestays, explaining that his daily interactions with his American host family and friends helped him understand what American investors look for in a city or company and why they have not been attracted to places like Rostov or Azov. Through his U.S. experience, he learned that Americans look for infrastructure and consistency in the application of regulations and laws. He realized that stability is a very important component in establishing and maintaining private businesses. He returned to Azov with new ideas on improving his city's investment climate.

FREEDOM Support Grants Program: During FY 1997, a total of 404 visitors from the NIS countries participated in group and individual projects to meet and consult with their U.S. counterparts in the fields of the rule of law, political and legislative reform, trade and economic development, decentralized governance, media, and governmental public relations. Nearly half of the programs dealt with rule of law and political/legislative reform. Programs on the U.S. court system were conducted for participants from Ukraine and Moldova. Several projects on U.S. politics, political party development and the workings of the U.S. Congress were implemented for Georgia, Kazakhstan, Moldova and Tajikistan. Three separate projects on the role of women in politics were conducted for groups from Belarus, Russia and Ukraine. Trade, finance and economic development continued to be important themes. Five projects for officials and legislators from regional Russian governments demonstrated ways in which the regions can promote agricultural and business development at the local level, stimulate trade and improve budgeting and revenue. A project in September for members of the nascent business community in Azerbaijan illustrated the factors in U.S. society that encourage entrepreneurship. Several successful projects on media and government relations with the press were conducted for groups from Moldova, Russia and Ukraine. Several Ukrainian journalists who participated in a project in July commented on the stark contrast between the press in the U.S. and Ukraine, marveling at a system that genuinely protects the freedom of the press and that is free of governmental interference.

Federalism Exchanges: The Lawyers' Alliance for World Security received a FY 1995 FREEDOM Support Grant to conduct a program on the functions of state governments in the U.S. federal system, emphasizing revenue sharing and intergovernmental structures. By pairing economically and geographically similar U.S. and Russian regions, this project has developed links between U.S. and Russian cities. The program selected *oblast* (regional) officials to travel to the United States for up to four weeks to attend workshops on federalism. Additional activities included a workshop in Samara chaired by a delegation of four Minnesota officials; an extended U.S. resident consultant in Samara and three internships for Samara faculty to develop their curriculum at the University of Minnesota's Humphrey School. The courses developed by the Samara University faculty will be published and distributed to other Russian regional universities, pending approval by the University Council and trial introduction of the courses in Samara.

FSA University Partnerships: The FSA University Partnerships program is designed to promote curriculum development and administrative reform in NIS colleges and universities. These grants support programs for up to three years in the fields of communication/journalism, law, economics/business, public administration, public policy, government, education, and educational reform. In FY 1997, USIA provided funding to seven partnerships through a limited competition. The majority of these funds were used to pay travel and related per-diem costs for participants. In addition, a special partnership grant was awarded to the Kyrgyz American School (KAS) to continue supporting the development of an English-language curriculum in Business and American Studies.

- The Kyrgyz American School (KAS) graduated its first class of 30 students in June 1997. KAS attracts a disproportionate number of the best students in Kyrgyzstan, including many Bradley High School Exchange Program alumni. KAS's tuition base is sufficient to cover its basic operating costs and to permit it to offer scholarships to its best students. The President of Kyrgyzstan plans to issue the school a charter as an independent university.
- Through their partnership, the University of Maryland and Samara State Pedagogical University (SSPU) are developing English-teaching (ESL) materials and methodology at SSPU. Authors from the two universities jointly developed an ESL textbook designed for Russian students that utilizes modern teaching methodologies and includes cultural content about life and education in the United States. The textbook has been approved by the Ministry of Education and will be used at both SSPU and the Moscow State Pedagogical University next year.
- In FY 1998, three partnerships will be established with Novgorod State University. The first partnership in public administration has been awarded to the University of Rhode Island. Proposals have also been solicited for partnerships in law and business. Requests for proposals have been published for additional partnerships throughout the NIS in the fields of law, business, public administration, education, journalism, and regional economic development, including partnerships for Khabarovsk or Sakhalin as part of the Regional Investment Initiative.

U.S.-NIS Municipal and Community Problem Solving Program: In FY 1997 USIA awarded a grant to Sister Cities International to administer the U.S.-NIS Municipal and Community Problem Solving Program. This program builds upon sister-city linkages by providing small grants to U.S. cities for cooperative projects with Russian and Ukrainian cities in the areas of economic development, health, education and human services. A portion of the project is to be used to deepen community ties between U.S. and Russian defense-industry cities. Sister-city pairs received their awards in September and began implementing projects, which will include support for the Novgorod Partnership for Freedom initiative.

U.S. and Russian sister cities:

Canon City, Colorado - Valdai
 Charlotte, North Carolina - Voronezh
 Duluth, Minnesota - Petrozavodsk
 Juneau, Arkansas - Lenin District of Vladivostok
 Minneapolis, Minnesota - Novosibirsk
 Philadelphia, Pennsylvania - Nizhniy Novgorod
 Rochester, New York - Novgorod

U.S. and Russian defense industry sister cities:

Livermore, California - Snezhinsk
 Los Alamos, New Mexico - Sarov
 Oak Ridge, Tennessee - Obninsk
 West Jordan, Utah - Votkinsk

Productivity Enhancement Program: In FY 1996, USIA awarded a grant to the Center for Citizen Initiatives (CCI) to administer a program created to provide training that would stimulate local manufacturing, production and services to ensure economic and political stability in Russia and Ukraine. Participants are selected and travel to the U.S. in sector-specific groups. This program also offers training to reform-minded NIS municipal leaders who are working to encourage private-sector development in their regions. This program is designed for non-English speakers and approximately 750 participants will have traveled to the United States by April 1998.

Democracy Funds: FY 1997 marks the second year of this small grants program for the NIS. The embassy-based Democracy Commissions award grants to host-country organizations or individuals for the advancement of democratic institution-building, including independent media and the free flow of information. Since FY1995, a total 194 grants have been awarded to nine of the participating countries: Armenia (46), Azerbaijan (11), Belarus (19), Georgia (22), Kazakhstan (16), Kyrgyzstan (25), Moldova (30), Ukraine (16), and Uzbekistan (9). In addition, Russia received \$2 million in FY 1997 for its Democracy Fund, of which \$1.8 million was awarded to the Eurasia Foundation to administer the program under the guidance and supervision of our embassy. The remaining \$200,000 will be used by the Democracy Commission to fund grants directly. A total of 26 grants were awarded in Russia in FY 1997. The Eurasia Foundation also implemented Democracy Funds in Tajikistan and Turkmenistan.

Educational Reform Programs: USIA's **Civic Education Curriculum Development Program** helps educators from the NIS to develop frameworks for civic education that include democratic values that can be applied to the development of national and local curricula. The program studies U.S. civic education as it is taught at the secondary school level and examines a variety of teaching methods, including traditional social studies courses as well as courses stressing the philosophy of democratic institutions, citizen behavior and social responsibility. The **Social Science Partnership Program** awards fellowships to junior social science faculty from Russian universities. Fellows participate in programs at major U.S. research and teaching institutions to examine how social science is taught, acquire teaching materials, and establish contacts with U.S. scholars, with the goal of strengthening current social science curriculum.

- In FY 1997, the history departments at the University of Maryland and Samara State University and the political science departments at Southern Illinois University at Carbondale and Urals State University conducted faculty exchange programs. U.S. and Russian faculty performed assessments of the Russian departments and developed strategies for strengthening and updating programs. Two junior professors from each Russian university spent a semester in the United States developing new courses and observing academic and administrative practices at their partner universities. The Russian partner departments subsequently introduced new courses developed as a result of the program.
- Economics faculty from the Far Eastern State Technical University were sent to the University of Nebraska at Lincoln and political science faculty from Nizhniy Novgorod State University were sent to Villanova University to develop courses and to discuss with their U.S. counterparts the broader curriculum goals of the two Russian departments. New courses will be presented at the Russian partner universities during the winter of 1998.
- In association with the University of Hawaii and Syracuse University and as part of a multi-year project, two-month intensive U.S.-based civic education curriculum development workshops were conducted for educators from partner regions of Krasnoyarsk and Bryansk. Five educators from each of these regions studied with U.S. experts, gained practical exposure to U.S. pre-collegiate education, and drafted teaching materials for use in schools in their respective regions. In FY 1998, U.S. specialists from the grantee institutions will continue to work with their Russian counterparts to revise the draft materials following a period of pilot-teaching in schools and critical review by U.S. and Russian specialists.
- A conference on civic education was held in October 1997 for 26 regional administrators and curriculum developers from 17 Russian regions. Participants learned about a variety of approaches to civic education and about on-going initiatives across Russia in order to raise awareness and solidify support for regional civic education programs. During the conference, Nizhniy Novgorod schools shared information on their innovative and wide-reaching civics programs with participants.

- Two three-day workshops were held for a total of over 100 educators in Novouralsk and in Rostov-on-Don. Educators from each region who had attended the January workshop served with other experts as trainers to introduce their colleagues to new civics teaching methods and materials.

Media Training Programs

International Center for Journalists: In August 1997, ten Russian media managers (newspaper editors and radio station managers) spent six weeks in the U.S. in an intensive program that involved structured workshops and supervised hands-on practical training through three-week internships at U.S. newspapers and broadcast outlets. A special effort was made to target media outlets in Yekaterinburg, Chelyabinsk, Omsk and Yaroslavl. As a result of this training program, the participants will return to their home countries with a new understanding of the role of the media in a democratic society and improved writing, editing and media management skills.

Russian and Ukrainian Media Training Program: In FY 1996, a grant was awarded to Duke University to provide training and internships at the North Carolina Center for Public Television and at CNN for approximately 18 Russian and Ukrainian journalists. The program consists of two weeks of formal training and two weeks of internships. The first group of four Russian and three Ukrainian journalists completed their program in April 1996. A second group of five Russians and three Ukrainians was selected in January 1997 to participate in March -April 1997 program. A one-day follow-on seminar for program alumni will take place in Moscow in January 1998 and three additional fellows from Russia will be selected to participate in March-April 1998.

Internews: Launched in FY 1995, this project was designed to strengthen non-governmental sources of news and information in the Caucasus region (Armenia, Azerbaijan and Georgia). This three-phase program provided training to television managers, journalists, editors, and engineers; coordinated the production and distribution of a Caucasus-wide news exchange; and established regional production units. A separate USAID grant covered the cost of equipment. This project also included seminar packages on television management, advertising, camera operation, and computer graphics for each country. As a result of this program, a Georgian news program is being produced on a weekly basis and a pilot edition of a trans-Caucasian news program was broadcast in late September. An amendment to the original grant will allow for the continuation of training in Georgia co-sponsored by the Open Society Institute.

U.S. INFORMATION AGENCY (USIA) - BASE BUDGET EXCHANGES

Secondary School Exchanges: The NIS Secondary School Initiative offers two grant programs in support of exchanges of high school students and educators between the United States and the 12 NIS countries. The objectives of these programs are to foster interaction between young people so as to promote mutual understanding and contribute to our common future; to integrate the people of the NIS countries into the world community by helping their young people build a new and open society and by promoting democratic values and institutions; to build sustainable partnerships between school systems and private organizations in the U.S. and the NIS and to build the capacity of American NGOs to conduct exchanges with the NIS.

- The **Future Leaders Exchange (FLEX) Program**, formerly known as the Academic Year Program, offers NIS students a one-academic year experience in the United States. In FY 1997, 860 students participated in the base-budget component of this program. (The majority of funding for this program was provided under the FREEDOM Support Act.)
- The **School Linkages Program** exchanges groups of students and educators between paired schools. In FY 1997, USIA awarded 16 grants to organizations in support of this program. The total number of participants to benefit from this program is 1,599—1315 students and 284 educators. As USIA funding for this program came to an end, the focus was shifted to the development of strategies for these linkages to become self-sustaining. School Linkage Program activities are based on specific topics, such as health education, which was chosen as a result of the high priority assigned to it by the binational Health Committee of the Gore-Chernomyrdin Commission. Other priority themes included the environment, agriculture, volunteerism and civic education. A first-time school linkage between U.S. and Russian schools for the hearing-impaired was established, under which the Kentucky School for the Deaf in Danville and the Kamensk Russian School for the Deaf exchanged students and educators under this program. Both schools were surprised by the similarity between American and Russian sign languages, as compared to the differences between spoken English and Russian. The Russian educators involved in the program were exposed to techniques and curriculum that are non-existent in Russia. Materials and lesson plans were created for use by the Russian school.

Edmund S. Muskie Graduate Fellowship Program: The Muskie Fellowship Program provides financial assistance to qualified individuals from the NIS for one- and two-year degree and non-degree graduate-level study in the United States. These fellowships are offered in the fields of business administration, economics, law, and public administration, which are of major importance in supporting the development of democracy, civil society and a market economy in the NIS. Since FY 1992, a total of 808 NIS participants have studied in the United States under the Muskie Program. The FY 1997 Muskie Program was competed in conjunction with the FSA Graduate Fellowship Program. USIA received a total of 3,068 applications for these programs, but only one out of every 15 applicants was accepted due to budgetary constraints. The vast majority of these applications were in business (1,105), educational administration (504) and public administration (481). USIA funded a total of 199 fellowships (99 of which were FSA-funded). Of the 236 applications from American universities to host students, 194 were accepted, with business being the number-one interest.

- Muskie Program alumni in Moscow organized and conducted four seminars this year, including a presentation on writing grant proposals, fundraising and volunteerism; a seminar on labor law and human resources; a corporate visit to Ernst and Young, Limited; and a seminar on archival and library science.
- The Economics Education and Research Consortium ran a competition for papers on the shadow economy and corruption in Ukraine. A Muskie Fellow from Poltava, Ukraine, who had just finished a master's degree at Oklahoma State University, was one of four winners.
- A Muskie alumnus who is head of the legal department of a consulting group in Nizhniy Novgorod drafted a law on private investment guarantees in the Nizhniy Novgorod *Oblast* (Region). This was the first time that the regional legislative authority asked an independent commercial private firm to draft a law. The alumnus also drafted a law on the rights and responsibilities of the governor of the *oblast*.

Fulbright Program: The NIS component of USIA's Fulbright Program provides lecturing opportunities for U.S. scholars who want to teach in the NIS and research awards for NIS scholars to study in the United States. The program is aimed at scholars in the humanities and social sciences, although scholarships are occasionally

awarded in the hard sciences (biology, chemistry, mathematics, medicine, etc.). In addition to funding 62 U.S. and 82 NIS scholars, USIA provided textbooks for the American grantees, and maintained offices for program administration in Moscow and Kiev. During the 1997-98 academic year, American Fulbrighters will lecture in 50 academic institutions throughout the NIS, while scholars from the NIS will be doing research in 50 U.S. academic institutions. In FY 1997, U.S. Fulbright lecturers were placed at 21 additional NIS academic institutions that had never previously hosted an American Fulbright lecturer.

- This past spring, USIS Moscow hosted a major all-Russian conference of alumni of USIA scholarly exchange programs. The goal of the conference was to draw together as many alumni as possible to engage in a substantive debate of the issues related to the development of a civil society in Russia and to address the issue of alumni activities in general. The results of this successful meeting included the creation of an association for alumni of all USIA exchange programs with an elected board to direct its activities. The board held its first meeting at USIS Moscow in late June. The association plans to organize more alumni conferences and to create an electronic journal.

Curriculum Development Exchange Program: This program awards grants to U.S. and NIS instructors of humanities and social sciences to serve as curriculum consultants to aid in the development and direction of teaching materials and curricula in these fields. The goal of the program is to incorporate these materials into the educational programs of Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Ukraine and Uzbekistan. In September, USIA awarded a grant to the International Research and Exchanges Board (IREX) to administer the program. A new component was added this year requiring participants to develop individual work plans with their host-university mentors prior to their arrival in the United States in order to define specific goals for curriculum development. Recruiting efforts are under way to select 15 U.S. faculty or pre-doctoral candidates to begin programs in spring 1998.

- A Moldovan participant placed at San Francisco State University (SFSU) built upon an already existing institutional link between the American Language Institute at SFSU and Balts State Pedagogical Institute, formed in 1996 by a Moldovan Fulbright Scholar from Balts State. The participant made arrangements for the donation of a large number of books to Balts State for curriculum development within the English-teaching department, and she is currently developing a curriculum for a new course, and has plans to create a Center of Methodological Studies for ESL Teachers in Balts, Moldova.
- During his stay at the University of Texas at Austin, a participant from Kyrgyzstan is developing new methodologies for teaching humanities at the Kyrgyz State Conservatory. He intends to include the use of CD-ROMs and audio/video tapes in his courses to make them more interactive.

Regional Scholar Exchange Program (RSEP): The Regional Scholar Exchange Program fosters the transformation of higher education in the social sciences and humanities in the NIS by providing research fellowships at U.S. and NIS universities to promising faculty and Ph.D. candidates from the NIS and the United States. The program gives scholars access to the materials and specialists in the host country, allowing them to research, write and publish dissertations, articles, and books on innovative topics that can advance the state of knowledge in their academic disciplines in their home countries. In FY 1997, programs for 110 scholars focused on 25 academic disciplines that are vital for the transformation of higher education in the NIS, including economics, government, education administration, and library science. U.S. and NIS scholars were selected through an open, merit-based competition and placed with host advisors at U.S. and NIS universities for periods ranging from three months to eight months. Fellows conducted research, wrote scholarly articles, developed new curricula, delivered lectures, participated in academic conferences, and collaborated with their counterparts. For the FY 1998 program, recruitment will target advanced graduate students working on dissertations to create more access to opportunity for the next generation of NIS scholars. The RSEP will launch a pilot project of five fellowships for U.S. scholars on the application of Internet and new information technologies in social sciences and humanities education at NIS universities.

- An RSEP alumnus from Kiev, was elected to the Verkhovna Rada, Ukraine's parliament. He serves as the secretary of the Foreign Relations Committee and is helping to guide Ukraine's education policy for the 21st Century.

- An RSEP alumnus from Moscow was promoted to Deputy Director of the Institute for Regional Education Development at Russia's Ministry of Education, where he helps expand educational opportunities for ethnic minorities in Russia.
- An RSEP alumnus from Tbilisi chairs the International Relations Department at Tbilisi State University and is establishing a center at the Ministry of Foreign Affairs for the training of Georgia's diplomatic corps.

University Affiliations Program: USIA's University Affiliations Program supports curriculum development and the improvement of teaching methodology at NIS institutions of higher learning. Although USIA base funding for this program was extremely limited in FY 1997, the majority of these linkages have remained intact with the help of other activities and funding sources. These grants are generating cost-sharing that exceeds the amount of funding provided by USIA.

- The School of Management at St. Petersburg State University, which was established with the help of U.C. Berkeley's Haas School of Business, graduated its first class of undergraduates in June. The partnership has established a prestigious binational Board of Directors, which has provided leadership in the solicitation of financial and in-kind support. USIA provided additional support as part of a package which included the donation by the City of St. Petersburg of two eighteenth century buildings in central St. Petersburg to house the School of Management, a donation of \$1 million by the Arthur B. Schultz Foundation for the renovation of the buildings (with additional funding still to be raised), and a \$750,000 grant from the Soros Foundation. USIA support will be used for faculty and graduate-level curriculum development and to help establish a Center for Research in Comparative Management.
- The University of Nebraska at Lincoln (UNL) will build on an established partnership with Kyrgyz State University and Khojand State University (Tajikistan). The two-year project will develop an MBA program in Kyrgyzstan and strengthen the business curriculum in Tajikistan through faculty exchanges, examination of graduate business courses and the delivery of textbooks.
- A two-year project under a continuing partnership between the California State Polytechnic University at Pomona, Yerevan State University (YSU) and the State Engineering University of Armenia (SEUA) will include the exchange of eight faculty from Yerevan to Cal Poly Pomona to work with instructional technologies related to distance learning and multimedia presentations, and to develop instructional modules for use in basic business and management courses. In addition, two Cal Poly Pomona faculty will travel to Yerevan for one-month consultations, each with a follow-up visit by Cal Poly Pomona's distance learning specialist to Yerevan. In addition, five faculty from Yerevan will return to Cal Poly Pomona for follow-up training related to work done during internships at various U.S. businesses. The goal of this project is to strengthen business education and business development in Armenia.

Internet Access and Training Program (IATP): The Internet Access and Training Program (IATP) provides sustainable access to and training in the use of the Internet and World Wide Web for the continued educational and professional development for USIA exchange program alumni and other citizens of the NIS who are working towards the transition to democracy, free markets, and a civil society in their home countries. The program enables USIA program alumni and a wider community to communicate with U.S. colleagues, obtain online resources, and publish information for a global audience. In FY 1997, the second year of the project, public-access Internet sites were established at 40 universities, libraries, research institutes, NGOs, and government agencies in Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia, Ukraine and Uzbekistan, including the USIA Alumni Center in Minsk, the Georgian Institute of Public Administration, the American Information Center in Yekaterinburg, Russia, and the University of World Economy and Diplomacy in Tashkent. In June 1997, the IATP established the Uzbekistan FreeNet, the first non-profit, low-cost, high-speed Internet service provider in Tashkent, which serves over 1,000 end-users, and continued to support the Kyrgyzstan FreeNet. The IATP provided e-mail and Internet training in Russian and other NIS languages to over 10,000 end-users, held courses to train local Internet trainers, graduated its first class of 25 Internet trainers in Georgia, helped NIS universities and libraries develop bilingual websites, and conducted seminars for USIA program alumni. In FY 1998, IATP activities will begin in Armenia, Azerbaijan and Moldova, and will continue in the other NIS countries. IATP training sites are expected to be established at the National Library of Armenia, the USIA Alumni Center at Moldova State University, private universities and NGOs in Baku, and the European Humanities University in Minsk. To support the Regional Investment Initiative in Russia, the IATP will expand connectivity and establish

public-access Internet training sites in Novgorod and Khabarovsk for students, faculty, NGOs and government officials working in business, law and public administration.

Hubert A. Humphrey Fellowship Program: This world-wide, base-funded program provides one-year grants to mid-career professionals to give them an opportunity to develop their leadership and management skills in the United States. In FY 1997, two Ukrainian professionals received fellowships for the 1997-98 academic year: (1) the Science Director at the Ukrainian Research Institute of Social and Forensic Psychiatry, who is studying policies on substance abuse prevention and public health at the Johns Hopkins University, and (2) the First Deputy Editor in Chief at *Lyudnia I Svit*, a monthly Ukrainian magazine, who is studying issues of the separation of church and state and ethnic minorities at the University of Maryland at College Park.

- A Humphrey Fellow from Ukraine was chosen to take part in the White House Conference on Hate Crimes, hosted by President Clinton in November. She participated in one of the ten breakout groups to discuss U.S. policies on hate crimes and the President's initiative to toughen enforcement on hate crimes and hate-crime perpetrators.

International Visitors (IV) Program: During FY 1997, a total of 229 International Visitors from the NIS participated in group and individual projects. Topics included journalism, civic education, university administration, museum management, business education, women's participation in civic life and politics, NGO start-up and management, and community service. Twenty-four visitors participated in multi-regional projects on these subjects. Education continued to be a primary focus for NIS grantees, who examined Western models of administration, curriculum development and civic education. Seven group projects were conducted for educators from Russia, Georgia, Kazakhstan and Turkmenistan in the fields of administration, civic education, technology in the schools and business education. Support for the nascent NGO and community-service sectors in the NIS was another important goal of the IV Program. Projects implemented along these lines included five groups from Georgia, Moldova, Turkmenistan and Uzbekistan who examined ways in which NGOs can cultivate sources of funding and develop substance-abuse and community-service programs. A July project for four Uzbek officials focused on citizen advocacy and the role of ombudsmen in state and local governments in settling citizen grievances.

- A Kyrgyz participant in a 1993 IV Program on economic development in a market economy was appointed the new Kyrgyz Ambassador to the United States in February. Ambassador. Abdrysaev was formerly head of the Foreign Relations Department of the Kyrgyz Presidential Administration.
- Two former International Visitors were appointed by President Yeltsin to the Russian Government in March. Alfred Kokh, former Deputy Chairman of the St. Petersburg Property Committee, participated in a 1993 IV project on privatization and is now a member of the State Property Committee. Oleg Sysuyev was appointed the task of overseeing housing and utility reform. In 1993, as the Mayor of Samara, Mr. Sysuyev participated in an IV project on local government and small-business development.
- Four Kazakhstani university rectors returned home from their IV program full of enthusiasm and ideas on ways to improve their institutions. They were greatly impressed by U.S. universities' active promotional and fundraising programs through alumni associations, publishing operations, and partnerships with business and government. Civic education curricula, lab classes, computers and Internet usage were among the innovations they introduced to colleagues. One participant has already published articles and appeared on local television to discuss his U.S. experience.

Citizen Exchanges: This program awards grants to public- and private-sector non-profit organizations to develop training programs in the NIS. These programs support the transition to democracy and market economies in the region. In 1997, ten awards were granted for projects on the themes of tax reform, intellectual property rights, public administration, media training, community and municipal problem-solving, and the rule of law.

- The International Executive Service Corps trained public administrators from Atyrau *Oblast* (Region) on the Caspian Sea. This is the first time one specific region was targeted for this type of training under this grant. The Atyrau *Oblast* was chosen because it houses both local and foreign oil companies. Participants were deputy oblast officials, city and district officials, and heads of oblast agencies. Activities consisted of an in-country seminar followed by U.S.-based training.

- A new grant was awarded focusing on the implementation of intellectual property rights legislation in Russia. Activities planned include seminars and training in Moscow for national and regional law enforcement officials, legal specialists, and academics. An intensive two-month training program will be held at the Law School in Chicago by Russian legal experts. This project directly responds to our embassy's priority emphasis on educating judges, lawyers, law enforcement officials and the general public about the importance of the protection of intellectual property to the development of a healthy economy.
- Ten Russian media managers (newspaper editors and radio station managers) will spend six weeks in the United States in an intensive program that will include structured workshops and supervised hands-on practical training through three-week internships at U.S. newspapers and broadcast outlets. A special effort will be made to target media outlets in Yekaterinburg, Chelyabinsk, Omsk and Yaroslavl.

Media Training Programs: USIA continues to support independent media and professional media training through various programs including the development of workshops and training seminars in the United States and the NIS.

- **Internews:** This project was designed to strengthen free press in Uzbekistan and teach journalistic standards of fair and objective reporting by conducting a series of seminars in Tashkent for journalists and technicians from 20 independent television stations throughout Uzbekistan. The project began with three six-day seminars followed by four five-day follow-up seminars that took place at four stations in outlying cities. The project ended with several participants being invited to participate in the productions of a weekly national news exchange program previously sponsored by Internews.
- **National Forum Foundation:** A project on strengthening Russia's regional media will recruit and develop internships for eight Russian journalists from outlying regions. These U.S.-based internships will include a Washington orientation and two six-week placements in U.S. media organizations. This project began with the arrival of two journalists in September, followed by the four more journalists in January 1998, and ending with the final two journalists in May 1998.

U.S. DEPARTMENT OF COMMERCE - SPECIAL AMERICAN BUSINESS INTERNSHIP TRAINING (SABIT) PROGRAM

Since 1992, the SABIT Program has enabled NIS executives to improve their market-based management and scientific skills by placing them in U.S. companies for hands-on training for a period of two to six months. At the same time, SABIT's U.S. Government/private-sector alliance has continued to build international business partnerships and increase investment and commercial opportunities in NIS countries and the United States. An independent program review conducted in 1997 concluded that SABIT has been successful in meeting its objectives. According to the review, 80 percent of the U.S. host companies surveyed and 84 percent of NIS executives were either extremely satisfied or satisfied with the program. Seventy percent of the U.S. host companies reported having established business relationships with their SABIT interns through joint ventures, purchasing agreements, service contracts, distributorships, and joint research-and-development agreements. Moreover, U.S. host companies have generated over \$112 million dollars in export revenues in the past five years, with future revenues estimated at \$320 million in the next three to five years. Eighty-six percent of U.S. host companies surveyed supplied follow-on assistance to their SABIT alumni, including computer equipment, access to industry information/contacts, and business and scientific journals unavailable in the NIS.

Over 75 percent of SABIT's participating U.S. host companies are small or medium-sized businesses which would otherwise be unable to provide similar training programs independently. The majority of NIS interns acknowledged that they were able to successfully utilize their newly acquired entrepreneurial skills upon their return to the NIS, as demonstrated by numerous success stories. Many interns have become involved in restructuring their companies and implementing American management techniques, marketing, production, and distribution skills, as well as new approaches to human-resource management.

In FY 1997, the SABIT Program provided internships for 268 managers and scientists, bringing the cumulative total to almost 1,200. This past year, over 300 U.S. companies hosted the executives, representing dozens of U.S. states. SABIT undertook a variety of training sessions in industries such as financial services, environmental

technology, standards and certification, and food processing and packaging. In addition to the group training, 35 individual training programs were completed with 30 U.S. companies in FY 1997.

Environmental Technology Program: SABIT trained over 50 environmental technology specialists from the NIS in the areas of hazardous waste remediation, wastewater treatment, and oil and gas clean-up. Each eight-week session exposed the group to innovative U.S. technologies, equipment, and services used to clean up industrial, nuclear, municipal, and petroleum waste, and provided them with information on environmental management and state/federal environmental regulations. As a result of this program, a Ukrainian environmental researcher and intern with the Environmental Technology Wastewater session, has been asked by a U.S. firm to be its representative in Ukraine. With their new representative's assistance, this U.S. company will soon commence a feasibility study connected with a proposed \$44 million project to construct water decontamination systems in the cities of Theodossia and Yalta.

Financial Services Program: This program trained a total of 95 NIS executives in four sessions, including 25 from the banking sector, 21 from the insurance industry, 25 from the accounting industry, and 24 from the securities industry. The sessions were designed to improve the financial services infrastructure in the NIS by exposing the executives to the latest Western financial management concepts and techniques, as well as teaching them how to apply these skills in their NIS enterprises. Their increased knowledge has fostered the creation of investment-friendly environments in the NIS and has led to new business development in the region. For example, an Uzbek delegation from Uzbekinvest has instituted many reforms, not only in their own company, but in Uzbekistan's insurance industry as a whole. Similarly, a Ukrainian participant in a SABIT accounting program used her new business plan development skills to increase the number of clients approaching her company for consulting services.

Food Processing and Packaging Program: SABIT's Agribusiness Program trained 30 NIS food processing and packaging executives by exposing them to the latest U.S. equipment, technologies, and systems integration methods employed in the food packaging and processing industries. The first session hosted 13 interns from the dairy industry, the second session hosted 17 interns from fruit and vegetable canneries and packaging plants, and the third session trained another 17 interns in beverage processing and packaging.

Standards Program: In partnership with the National Institute of Standards and Technology (NIST), SABIT provided three six-week training sessions to NIS standards writers, certifiers and accreditation experts on telecommunications equipment, power generation, and meat and poultry processing. Alumni activities such as seminars, workshops and networking opportunities with U.S. companies were provided in a number of NIS countries. The Ukrainian SABIT Alumni Association, for example, is in the process of preparing three seminars in the upcoming six months on the conservation of water resources, the development and harmonization of standards with ISO norms, and agribusiness.

The SABIT Program's plans for FY 1998 include participation in the U.S.-Russia Presidential Management Training Initiative by providing 150 Russian managers with long-term training in U.S. companies, a quality management and manufacturing program for NIS plant managers, standards and certification training for NIS executives, and environmental technology training. SABIT's Ukrainian Regional Investment Stimulation Program will train 40 managers and scientists in the food processing and packaging, and construction industries. The Russian Far East program, part of the Gore-Chernomyrdin Commission's Regional Investment Initiative, will train 100 specialists in the following industries: oil and gas exploration and production, fisheries, renewable energy, mining, and infrastructure.

U.S. DEPARTMENT OF AGRICULTURE (USDA) - COCHRAN FELLOWSHIP PROGRAM

USDA's Cochran Fellowship Program provides short-term agricultural training programs for NIS agriculturalists and policy makers. Training programs are conducted in the United States for selected mid- and senior-level specialists and administrators in areas that help their home countries develop their own agricultural food systems, and help strengthen agricultural trade linkages with U.S. agribusinesses. Training is implemented in cooperation with USDA agencies, agricultural trade and market development associations, universities, and private agribusiness.

In FY 1997, the Cochran Program provided training for 175 participants from 11 NIS countries (excluding Belarus). An additional 49 NIS participants received training from October to December 1997. By the end of FY 1997, a total of 603 NIS Cochran Fellows had been funded through the FREEDOM Support Act: Armenia (41), Azerbaijan (17), Belarus (20), Georgia (22), Kazakhstan (56), Kyrgyzstan (39), Moldova (56), Russia (172), Tajikistan (32), Turkmenistan (30), Ukraine (68), and Uzbekistan (50).

An additional 59 Cochran participants received training funded by USDA's Emerging Markets Program (EMP). Since FY1993, EMP has funded 563 Cochran Fellowships for NIS participants. EMP funding is currently targeted towards trade-related activities focusing mostly on food wholesale and retail training.

FSA-funded Cochran training covered a wide range of topics, including agricultural policy, land tenure, agricultural bankruptcy, agricultural finance and banking, food safety, food processing and marketing, international trade, wholesale market development, WTO accession issues, agricultural journalism, agricultural market news, farm management, livestock processing and marketing, food wholesale and retail, and cooperative/agribusiness management.

A 1996 outside evaluation of the Cochran Program in Russia, Ukraine, Kazakhstan and Uzbekistan found that the program has provided effective technical and trade-related training, and has "successfully recruited a group of NIS citizens who are generally reform-minded, market-oriented, democratic, and proactive." Former Cochran participants have used their training to start new private enterprises—including grocery stores, agribusiness consulting companies, restaurants, farms, farmer cooperatives and farmer's markets—as well as to upgrade existing agribusiness enterprises. From a policy perspective, Cochran alumni in Russia have had direct influence on the new land code, rural land mortgage, the legal foundation for agricultural cooperatives, and state-collective farm privatization.

According to our embassy in Kyrgyzstan, the Cochran Program has contributed to the privatization of agriculture in Kyrgyzstan: Reform-minded Cochran Program alumni have been appointed to key positions, including a deputy prime minister, an *oblast* governor, heads of district administrations, heads of farmers' cooperatives and, recently, heads of farmers' associations. Medium-level specialists who participated in the Cochran Program returned home with a better understanding of market principles and modern farming techniques, allowing them to act more independently and to launch projects of their own instead of relying on remnants of the old Soviet system. The best example of this is the creation of small processing facilities around the country to avoid shipping products to giant factories miles away. The creation of farmers' credit unions instead of the bankrupt state-owned AgroBank was done with participation of Cochran Program alumni.

From an agricultural trade perspective, recent Cochran alumni have imported, as a direct result of their training, U.S. agricultural products and equipment. For example, a Russian fruit company purchased U.S. fruit-ripening equipment and is importing from American firms over 6 vessels of fruit per month; a Uzbekistani-American joint venture purchased \$130,000 worth of U.S. grocery items to open their new grocery store; a Kazakh food processor purchased several commercial-scale U.S. fruit juice processors; a Russian grain dealer reported he expects to purchase of over 30,000 tons (\$30 million) of U.S. hard red winter wheat in 1998; a Russian Far East baking company reported imports of 1,100 tons of U.S. flour per month; a Russian food processor ordered 40 tons of U.S. boneless pork per month; and Armenian and Kazakhstani supermarket owners reported that their overall sales, and their imports of U.S. value-added products, have increased as a result of their training.

A Cochran alumni group was formed in Ukraine in early 1997 with over 100 members. The group is working with the USDA Agricultural Extension advisor in Kiev to formalize the association and develop follow-on training activities that will help to strengthen the role of the organization on Ukrainian agriculture and their relations with the United States.

Two Cochran fellows who are senior members of the Department of Agrarian Policy of the Russian Ministry of Agriculture attended the Gore-Chernomyrdin Commission's Agribusiness Committee's Program for Revitalizing Agriculture through Regional Investment (PRARI) Agribusiness Roundtable in Chicago. The Cochran Program intends to participate in the PRARI project in the future.

U.S. DEPARTMENT OF AGRICULTURE (USDA) - FACULTY EXCHANGE PROGRAM (FEP)

USDA's Faculty Exchange Program (FEP) has provided long-term practical training of five to twelve months in duration to qualified university educators from progressive agricultural institutions to increase their capability to develop academic and adult education programs and curricula to teach agricultural economics and marketing, agribusiness, and agrarian law in a market-based economy. The program has established U.S.-NIS university linkages and provided for follow-on support visits to participants in the field. The program's objective has been to promote the development of sound agricultural policy and effective and competitive agricultural marketing and business systems in the NIS. The FEP has played a critical role in building the human and institutional capacity necessary for the NIS countries' transition to a market-based economy. Increasing the number of adults in the NIS who understand the workings of a market economy, who can teach and create educational materials on market economics, and who possess the mind set to adapt to a market economy is critical to the formulation and implementation of sound policy and for future agricultural development.

FEP learning experiences have been conducted in the United States in collaboration with state agricultural universities, land-grant colleges, and with the private sector. Individualized programs have been designed and conducted within the broader subject areas of agricultural economics and marketing, agribusiness, and agrarian law depending on the participant's interest. A great deal of time has been spent by university staff working one-on-one, or in small groups with participants. Participants do not take classes, but rather observe classes in their subject area at each university and learn new methods of teaching, how to develop curricula, to assess student progress, to choose and develop class materials, and to revise their own university curricula. Each participant is expected to revise or create a minimum of three courses during the program for introduction upon return to their home institution. Participants also visit numerous agribusinesses, farms, cooperatives, banks, storage facilities, processing plants, universities, and extension and adult education programs to gain practical first-hand experience and knowledge of how the U.S. agricultural research, education, and business systems function under free-market conditions. They are placed in an internship at an agribusiness or government facility related to agriculture. The FEP program receives considerable in-kind contributions and support from participating U.S. universities and the private sector.

The first 21 participants of the FEP, 12 from Russia, 7 from Ukraine, and 2 from Kazakhstan, completed a five-month program of study ending in December 1995. As a direct result of the program, new departments have been established, adult education and consulting services have been initiated, over 60 courses have been developed or revised, new teaching techniques have been introduced, and text books and short course manuals have been written. Participants continue to network with each other, as well as with U.S. host faculty.

Late in FY 1996, the FEP received funding to continue the program in Ukraine. Twenty-two applicants and their rectors from 11 Ukrainian agricultural institutes and universities were interviewed at their universities in March 1997. Eleven participants representing nine institutions were selected and began a six-month program in June 1997, bringing the cumulative number of FEP participants to 32. The areas of concentration for the FY 1997 group were farm management and extension education; agribusiness management, administration, and information systems; and agricultural marketing. FY 1997 participating U.S. universities included Pennsylvania State University, North Dakota State University, and Purdue University. FEP participants also took part in a three-week agriculture-agribusiness tour of Colorado, Wyoming, New Mexico and Arizona, where they visited the agricultural economics departments and compared curricula at Colorado State University, the University of Wyoming and New Mexico State University. The participants returned to Ukraine in December, and follow-on advisory visits by U.S. faculty to this group are being planned for FY 1998.

Also in FY 1997, two faculty members involved in the program from the University of Nebraska-Lincoln, and one from Colorado State University, traveled to Russia and Ukraine respectively to provide follow-on visits to five participants at their home institutions. During these visits an agreement for staff and student exchanges between the Tyumen State Agricultural Academy and the University of Nebraska-Lincoln, Institute of Agriculture and Natural Resources was formalized. The first students from the Tyumen State Agricultural Academy visited Nebraska in September 1997, and plans are under way for students and staff from Nebraska to visit Tyumen

next year. Additional follow-on advisory visits to the 1995 participants and their universities by U.S. faculty from Purdue, the University of Missouri, the University of Arkansas, and Colorado State University are planned for FY 1998.

DEMOCRACY PROGRAMS

CONGRESSIONAL RESEARCH SERVICE - PARLIAMENTARY DEVELOPMENT PROGRAM (CRS-PDP)

Russia: The CRS-PDP program focused on strengthening the capacity of the Russian legislature to get and use information, to help legislators make more informed decisions on specific policy issues and to play a more significant role in the policymaking process. During the course of its seven-year program (from 1990 to 1996), CRS provided the technical means to get, use and communicate information, including personal computers, copiers, printers, faxes and other office equipment, and extensive network hardware, software and associated telecommunications. CRS also provided concrete information resources, such as books and subscriptions purchased for parliamentary library and research services. CRS also encouraged and assisted with the creation of a parliamentary research service, and provided training to over 2,200 members of parliament and staff on legislative research and policy analysis. CRS's activities in concluded at the end of December 1996.

- During the first quarter of FY 1997, CRS provided a training program on the use of the Internet for members and staff of Russia's Federal Assembly. Five U.S. experts trained 150 people in the State Duma and Federation Council. Over the three-year life of the program, CRS provided training to a total of 231 Russian members and staff.
- Over the life of the program, CRS purchased 51 personal computers, 7 servers, 5 laptop computers, 66 printers, 2 scanners, 3 copiers, and substantial networking hardware and software and significant amounts of vendor training for the staff. With CRS's assistance, the Duma was able to create a high-speed network linking 800 PCs in 52 LANs. Moreover, the program made it possible to link the Duma, Federation Council and the Library in a comprehensive network for exchanging information. CRS also purchased over 500 reference books, serials, and CD-ROM subscriptions for the Parliamentary Library of the Russian Federation.
- In addition, a senior CRS defense analyst worked with his counterparts in Moscow on defense policy and military organization issues, consulting with 14 Russian staff who worked for the Defense Committees of the Federation Council and the State Duma in December 1996. In total, CRS provided 17 such technical assistance visits to Moscow.

Ukraine: The Ukrainian component of the CRS-PDP program also focused on strengthening the capacity of the legislature to get and use information, to help legislators make more informed decisions on specific policy issues, and to play a more significant role in the policymaking process of the nation. A technical staff member from CRS traveled to Kiev in early FY 1997 and met with the automation staff of the Supreme Rada to evaluate the equipment/software deliveries over the life of the program, implementation of legislative applications, and to assess the status and plans for improved Internet connections. Over the life of the program, CRS made it possible to link all five Rada buildings with fiber-optic cable, and to network 350 of the total 550 personal computers available to the Rada. CRS also made it possible to obtain two linkages to the Internet, one by land-line through Lviv and the other by satellite using UNDP equipment and CRS funding. CRS also purchased approximately 75 personal computers for the Rada, and provided substantial hardware, software and telecommunications technical assistance.

- In December 1996, CRS provided a training program for 45 interns of the Supreme Rada, sponsored by the U.S. Association of Former Members of Congress in Kiev. The program focused on foreign investment issues as a tool for learning how to provide research and analysis for legislators. The faculty consisted of CRS and other Library of Congress staff. In total, the CRS program provided training to over 650 Rada members and staff, including a new-member program in Kiev, seminars for over 250 staff in Kiev, and 40 staff training opportunities in Washington.

- Two CRS experts visited Kiev in the first quarter of FY 1997 to provide technical assistance on economic issues. CRS's senior specialist in post-Soviet economics completed work on a joint research effort with Supreme Rada staff assessing the legislative base for giving Ukraine a more investment-friendly environment. A CRS banking specialist consulted with 30 Rada staff working on banking issues, including staff from the Analytic Department and the Committee on the Economy and Management of Natural Resources of the Supreme Rada. In total, CRS provided 34 technical assistance visits to Kiev, involving over 54 staff from the United States. CRS also facilitated the creation of an Analytic Department to conduct research for the Rada.

U.S. DEPARTMENT OF STATE - ANTI-CRIME TRAINING AND TECHNICAL ASSISTANCE (ACTTA) PROGRAM

In late FY 1994, in recognition of the transnational dangers posed the rise of crime in the NIS and Central Europe, the U.S. Government established the Anti-Crime Training and Technical Assistance (ACTTA) Program, an interagency effort administered by the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) that is designed to help NIS and Central European law enforcement officials develop new techniques and systems to cope with crime while simultaneously strengthening the rule of law and respect for individual rights.

The State Department's INL Bureau coordinates the work of thirteen federal agencies that participate in the ACTTA Program: the Department of Justice (DOJ) and its International Criminal Investigative Training Assistance Program (ICITAP); the Federal Bureau of Investigation (FBI); the U.S. Drug Enforcement Administration (DEA); the U.S. Secret Service (USSS); the U.S. Customs Service (USCS); the Internal Revenue Service (IRS); the Bureau of Alcohol, Tobacco and Firearms (ATF); the Financial Crimes Enforcement Network (FinCEN); the U.S. Coast Guard (USCG); the Department of Commerce; the State Department's Bureau of Diplomatic Security (DS); and the Federal Law Enforcement Training Center (FLETC). A summary of the ACTTA Program's FY 1997 activities is provided below:

Georgia: In FY 1997, ACTTA funding for Georgia was withheld at the request of the U.S. Ambassador, on the premise that such assistance should be contingent on signs of a genuine commitment to undertake reform and increased respect for human rights. Nevertheless, the U.S. Coast Guard (USCG) continued its active engagement with Georgia's Border Guards, facilitating funding for the purchase of two 40-foot patrol boats (including training and two years' worth of spare parts) in FY 1996.

Kazakhstan: In FY 1997, approximately 95 Kazakhstani law enforcement officials participated in seven ACTTA courses—three in Kazakhstan, three in the United States, and one in Uzbekistan. Participating agencies included the Ministry of Internal Affairs (MVD), Tax Police, Procuracy, and State Investigative Committee (GSK). Topics included organized crime, financial crimes, counter-narcotics and anti-corruption. As of the end of FY 1997, 400 Kazakhstanis had participated in a total of 22 courses.

Kyrgyzstan: Officials from the Kyrgyzstani Ministry of Internal Affairs, Tax Police and Procuracy participated in a total of six courses in FY 1997—four in Kyrgyzstan and two in the United States. Topics included organized crime, forensic development, investigative development and financial crimes. As of the end of FY 1997, 94 Kyrgyzstanis had participated in a total of 12 courses.

Moldova: In response to a request by the head of Moldova's Department of the Prevention of Organized Crime and Corruption (ACA), INL funded the travel to Moldova of a four-person Justice Department assessment team to conduct a needs-assessment in July. The assessment team met with U.S. Embassy personnel, as well as with Moldovan officials, and reported that the ACA was substantially under-funded. Although the Moldovan Parliament provided funding for the salaries of 353 employees, no funding was provided for other support functions (such as equipment, supplies, maintenance and operational funds). This funding was to have been provided by the Ministry of Internal Affairs (MVD), which has only committed to providing the ACA with nine police vehicles.

- INL funded the purchase and delivery of fingerprint-related equipment and camera equipment for use by local Moldovan law enforcement authorities. Other equipment, such as tape recorders, dictaphones,

computer video equipment, telephone transmitters, radio microphones, recording receivers and undercover electronic sirens, was also purchased.

- Members of the General Prosecutor's Office participated in a U.S. Justice Department symposium on transnational criminal investigation and prosecution held in February.

In FY 1997, a total of 10 INL-funded training programs were provided at an estimated cost of \$376,226. The programs were administered by ATF, DEA, DS, FBI, FLETC and USCS. Topics included post-blast investigations; regional drug enforcement; witness and judicial protection; practical case initiatives; advanced organized crime; money laundering; regional training of trainers; and police-academy administration.

Russia: In FY 1997, law enforcement training was provided to the following Russian agencies: the Ministry of Internal Affairs (MVD), Tax Police, Border Guards, Immigration Service, Customs Service, Central Bank of Russia, the VEK, the Ministry of Health, and the Procurator's Office, as well as parents' groups NGOs and treatment centers. Some 62 courses were conducted for 788 Russian law enforcement officials in FY 1997 (49 in Russia, nine in the United States and four in Budapest):

- 26 courses in organized crime: MVD, Tax Police, Procuracy, Customs
- 20 courses in financial crimes: Central Bank, MVD, Tax Police, Procuracy, VEK
- 1 course in auto theft: MVD and Procuracy
- 7 courses in community policing: MVD and Procuracy
- 1 course in trafficking in migrants: Border Guards, Immigration Officers, Customs
- 4 courses in counter-narcotics: MVD, FSB, and Procuracy
- 3 courses in demand reduction: Ministry of Health, parents' NGOs and treatment centers

As of the end of FY 1997, a total of 3,371 Russian law enforcement officials had participated in 150 courses.

Russian Central and Commercial Bank Initiative: Money laundering continued to be a problem in Russia in FY 1997. Concerns revolve around funds from illegal operations, privatization of industry, corruption and capital flight. In April 1996, INL began a series of exchanges and seminars with the Russian Central Bank and law enforcement agencies to improve bank safety and prevent money laundering. The following U.S. Government agencies are participating in the Russian Central Bank Initiative: the Federal Reserve Bank, Office of the Comptroller of the Currency (OCC), U.S. Secret Service (USSS), U.S. Customs Service (USCS), Internal Revenue Service (IRS), Financial Crimes Enforcement Network (FinCEN), Department of Justice (DOJ), Drug Enforcement Administration (DEA), and Federal Bureau of Investigation (FBI).

- In October 1996, an INL-funded delegation traveled to Russia to formalize the findings of its previous trip (in April 1996) and to develop specific training programs. The Russian counterparts included staff members of the Russian Finance Academy.
- In June 1997, a multi-agency U.S. Government training team funded by INL conducted a two-week training seminar on financial crimes. The seminar was attended by over 100 Russian law enforcement officials, bankers and bank regulators. The course covered financial crimes, case studies, the investigation process, the judicial process, criminal and civil prosecutions, cross-border money movements, counterfeit currencies, electronic banking crimes, covert operations, interviewing techniques, and international treaties.
- In September 1997, INL and various U.S. Government law enforcement agencies met with the VEK in Washington to discuss information-sharing and how to combat transnational financial crime. The VEK was offered training and technical assistance programs to fight money laundering and other financial crimes.
- In addition, INL funded an interagency training team to provide a one-week training seminar in Vladivostok to law enforcement officers, bank regulators and financial institutions.

Tajikistan: Tajikistani officials only participated in highly focused regional criminal justice training in those instances where U.S. interests were served. In February 1997, two Tajik law enforcement officials participated in an FBI-sponsored seminar on advanced organized crime at the Academy of Uzbekistan's Ministry of Internal Affairs (MVD) in Tashkent. As of the end of FY 1997, a total of 11 Tajik officials had participated in four courses.

Turkmenistan: Turkmenistani officials only participated in highly focused regional criminal justice training in those instances where U.S. interests were served. In July, Turkmenistani officials participated in an FBI training assessment in February, an FBI organized crime seminar in July, an FBI practical case training session in September, and an ATF international post-blast investigation. As of the end of FY 1997, a total of 74 Turkmen officials had participated in eight courses.

Ukraine: In FY 1997, a total of 21 INL-funded programs were provided to Ukrainian law enforcement officials at an estimated cost of \$1.75 million. The programs were administered by ATF, FBI, ICITAP, OPDAT, DEA, IRS, USCS and DS. Training was provided in the area of financial crimes (excise tax training, financial investigative techniques), narcotics (a DEA executive observation program and a regional drug enforcement seminar), forensic development, and law enforcement (auto theft, practical case initiatives, investigative development and fraudulent travel documents).

- The Justice Department's Office of Prosecutorial Development and Training (OPDAT) offered two workshops on the development of organized crime "strike forces." The workshops, which were designed for senior-level prosecutors and investigators, sought to introduce the Ukrainian participants to the concept of strike forces as an efficient mechanism for combating organized crime. The workshops were attended by prosecutors from the General Procurator's Office and investigators from the Ukrainian MVD. The main goal of the two-part program was to lay the groundwork for the formation of strike forces in Kiev and Odesa.
- The U.S. non-governmental organization Project Harmony conducted two INL-funded grassroots exchange programs in FY 1997. In May, U.S. police officers traveled to Lviv and the surrounding *oblast* (region) to teach and share professional knowledge with their Ukrainian counterparts. The officers spent two full days at the Institute of Internal Affairs in Lviv providing training on state and local policing issues. In September, Ukrainian police officers from the Ministry of Internal Affairs and the Institute of Internal Affairs of the City of Lviv participated in a two-week exchange program designed to expose them to U.S. municipal and state law enforcement issues. As a way of minimizing costs and enhancing professional linkages, the participants stayed at the homes of their U.S. counterparts.
- The John Jay College of Criminal Justice sent a team of scientists to Ukraine in June to assess the condition of criminal laboratories and facilities, as well as the relationship between the laboratory system and the judicial system. The team found Ukrainian lab personnel to be highly trained and professional, but performing their jobs in inadequate and inappropriate facilities and using aging equipment. Some rather basic and important scene investigation and analytical equipment is simply not available to them. Like many other public servants in Ukraine, laboratory personnel had been working without a salary for two to three months prior to the assessment.
- In April, four Ukrainian officials participated in a seminar on anti-corruption strategies for Central and Eastern European and NIS countries held at the FBI's International Law Enforcement Academy (ILEA) in Budapest. The seminar was organized by the United Nations Interregional Crime and Justice Research Institute (UNICRI) and was designed to provide information on (1) general causes and characteristics of corruption in the participating countries; (2) information on anti-corruption strategies to identify and analyze problems encountered in investigation and prosecution; and (3) suggestions on best practices for preventive and repressive control mechanisms, including how inadequacies in relevant laws impede their use. The Ukrainian participants included the head of the Kiev City Procuracy, an investigator from the Kiev City Procuracy, a senior investigator from the Tchernivtsi Region Procuracy, and a prosecutor from the Ternopil Region Procuracy.

Uzbekistan: Uzbek officials participated only in highly focused regional criminal justice training in those instances where U.S. interests were served. In FY 1997, ten training courses were conducted (two in Uzbekistan, seven in the United States, and one in Hungary). Topics included organized crime (2 courses), forensic development (1 course), investigative development (3 courses) and criminal justice (4 courses). The Federal Bureau of Investigation (FBI) conducted seminars on advanced organized crime in February and on law enforcement officer safety and survival in August. The U.S. Drug Enforcement Administration (DEA) provided regional anti-narcotics training for Uzbek officials in March. In May, the Bureau of Alcohol, Tobacco and Firearms provided training on post-blast investigations. In June, the Justice Department's International Criminal Investigative Training and Assistance Program (ICITAP) coordinated an executive observation tour for

Uzbekistan's Minister of Internal Affairs. As of the end of FY 1997, a total of 89 Uzbeks had participated in 13 courses.

U.S. DEPARTMENT OF JUSTICE (DOJ) - OFFICE OF OVERSEAS PROSECUTORIAL DEVELOPMENT, ASSISTANCE AND TRAINING (OPDAT)

The goal of OPDAT's criminal justice assistance program is to help the NIS countries reform their criminal justice systems so that they can more effectively combat organized crime and corruption. OPDAT is working towards this goal by pursuing the following objectives:

- developing and providing training in effective investigative and prosecutorial techniques and procedures in accordance with the laws of the host countries;
- promoting effective cooperation between prosecutors and local law enforcement agencies, including joint prosecutor-investigator strike forces and other multi-agency task forces to combat transnational crimes;
- monitoring and reviewing the preparation of key criminal laws and procedural legislation and providing commentary to legislators upon request;
- providing training to high-ranking legal and law enforcement officials on criminal justice topics of mutual interest in national and multinational conferences;
- assisting in the development of a curriculum for indigenous legal/educational training institutes for judges, prosecutors and other entities within the criminal justice system; and
- providing public information/education on criminal justice reforms through local media, public symposia and lectures at universities.

Armenia: In FY 1997, DOJ/CEELI provided commentary on draft sections of the Armenian criminal code and criminal procedure code. OPDAT will continue to coordinate DOJ/CEELI programs in Armenia during FY 1998.

Georgia: In FY 1997, DOJ/CEELI sent a team to Georgia to conduct a formal assessment of Georgia's criminal code. The plan for legislative reform and training that result from this assessment will form the basis of OPDAT's activities in Georgia in FY 1998. OPDAT will continue to coordinate DOJ/CEELI programs in Georgia in FY 1998.

Moldova: OPDAT did not conduct any training programs in Moldova in FY 1997. However, at the request of both our embassy and the Moldovan Government, OPDAT sent an assessment team in FY 1997 to survey the needs of the new anti-corruption agency recently established by the President of Moldova. The plan for legislative reform and training resulting from this assessment will form the basis of activities for OPDAT in Moldova in FY 1998. OPDAT plans to send experienced federal prosecutors to Moldova to begin the process of assessing current legislation and identifying possible solutions for the Moldovan Government. The project has support at the highest levels of the Moldovan Government, and it presents an opportunity for genuine reform. In addition, OPDAT plans to conduct workshops for the law enforcement and legislative community on the topics of organized crime and public corruption.

Russia: In FY 1997, OPDAT made many recommendations and provided guidance to the Russian Parliament in the development and passage of the country's new criminal code, which went into effect on January 1, 1997. A similar effort was directed towards the proposed criminal procedure code, which has yet to be adopted. At the request of the Russian Ministry of Internal Affairs (MVD) and General Procurator's Office, OPDAT's resident legal advisor in Moscow provided commentary and advice on the proposed criminal procedure code and other key pieces of criminal justice legislation. To supplement its work in the legislative arena, OPDAT sponsored several workshops and seminars to explain to a broad spectrum of the Russian law enforcement and legislative community the techniques needed to most effectively implement the country's new criminal code. Specifically, this included courses that reflected the recently enacted laws on computer fraud, financial fraud and intellectual property rights. However, the workshops also focused on the burgeoning problem of organized crime in Russia

and how best to combat it. In particular, the concept of strike forces was presented to the Russian legal community as an effective tool to use in this effort.

In FY 1997, the legal assistance program funded by OPDAT and implemented by the American Bar Association's Central and East European Law Initiative (DOJ/CEELI) focused on the judiciary. Programs on judicial oversight, from pre-trial investigation through trial and sentencing (a new concept in the Russian legal system), were held for judges throughout Russia. A special emphasis was placed on judicial oversight in complex cases involving organized crime and corruption.

OPDAT trained approximately 750 Russian participants in five training sessions in FY 1997, bringing the cumulative total to 1,150 participants in seven sessions. Similarly, DOJ/CEELI used OPDAT funding to train approximately 775 participants in 12 sessions, bringing the cumulative total to 1,500 participants in 25 sessions.

In FY 1998, OPDAT will continue to support the development of Russian legal institutions and the training of legal professionals in effective strategies to fight crime and corruption. To build on its FY 1997 successes, OPDAT plans to expand its outreach to the far regions of Russia, focusing on the differing crime problems in the various regions. For example, a program on Asian organized crime will be introduced in the Russian Far East. To supplement its own programs, OPDAT will continue to coordinate the DOJ/CEELI program in Russia and will begin to coordinate its programs with American University's Organized Crime Centers. In addition, OPDAT will focus on Russia's ongoing struggle to adopt the draft criminal procedure code. In drafting committee meetings, DOJ legal advisors will encourage additional modifications to the procedure code to allow for more proactive approaches to investigations, such as undercover and sting operations.

Ukraine: In FY 1997, OPDAT provided initial assistance to the Ukrainian Government by conducting an assessment of the current legal issues confronting parliamentarians and law enforcement officials. Specific assistance projects included commentary and advice for the draft criminal code, as well as for specific laws and criminal procedures necessary to combat organized crime and corruption. Most importantly, as a result of OPDAT's introduction of the strike force concept through its FY 1997 training programs, Ukraine established its first strike forces. OPDAT trained its first 450 Ukrainian participants in three training sessions in FY 1997.

In FY 1998, OPDAT's Ukraine program will focus on the development of organized crime strike forces and law enforcement interagency cooperation in order to foster a better climate for the coordinated unbiased investigation and speedy prosecution of criminal cases. Participants will learn the importance of interagency communication and cooperation, proper investigative techniques, and case preparation by participating in "mock trials." The agencies that will be represented will be the Ministry of Internal Affairs (MVD), the State Investigative Committee (GSK), the Committee for National Security (KGB), the General Procurator's Office, the National Bureau of Investigation (NBI) and the Ministries of Justice (MOJ) and Health (MOH). In the legislative area, OPDAT plans to respond to requests from the President's Office, the Ukrainian Parliament and the Procuracy to provide assistance in the development of key elements of criminal justice legislation. Pieces of legislation to be covered include the draft criminal code, a draft law creating a new National Bureau of Investigation, and legislation on corruption. To supplement its own programs, OPDAT will continue to coordinate the DOJ/CEELI program in Ukraine and will begin to coordinate programs with the American University's Organized Crime Centers.

Central Asia: In FY 1997, OPDAT placed two Justice Department (DOJ) short-term legal advisors for two workshops on economic crimes in Kazakhstan and Kyrgyzstan. At the request of the host countries, the DOJ legal advisors provided commentary on several key pieces of legislation, including money laundering and organized crime. In 1998, OPDAT plans to continue its efforts in the legislative arena in Central Asia. These efforts will take the form of legislative seminars and workshops on topics such as combating economic crime, as well as investigating and prosecuting organized crime.

NIS-wide: In FY 1997, OPDAT conducted two multinational conferences at the FBI's International Law Enforcement Academy (ILEA) in Budapest. The purpose of these conferences was to identify and resolve impediments to cooperation in the investigation and prosecution of transnational crimes. Using a hypothetical criminal case, the participants examined investigative and prosecutorial techniques, discussed how the case would be handled in accordance with the criminal laws and processes and their respective countries, and identified how policy or legal shortcomings would be resolved. OPDAT trained 28 participants in FY 1997, bringing the cumulative total to 28. In the area of legislation, OPDAT's NIS advisors will conduct follow-up assessments relating to the preparation of criminal justice legislation. OPDAT will continue to support the

development of criminal justice legislation that provides for effective investigation and prosecution of criminal activities, and the creation of a more effective system of criminal procedures. Based on the successful programs at ILEA in FY 1997, OPDAT plans to use the ILEA model to help law enforcement and prosecutorial agencies on an international basis. Again, using the ILEA case-study model, OPDAT plans to conduct a senior-level Transnational Criminal Investigation Symposium in Almaty, Kazakhstan involving investigators and prosecutors from Kazakhstan, Kyrgyzstan, Uzbekistan and the United States. The training, in addition to disseminating timely information regarding U.S. investigative and prosecutorial techniques, will stress transnational and international cooperation.

ENERGY AND ENVIRONMENTAL PROGRAMS

U.S. DEPARTMENT OF ENERGY (DOE) - NUCLEAR SAFETY PROGRAMS

Efforts to Improve Safety at Soviet-Designed Reactors

The U.S. Energy Department's (DOE's) work to improve safety at Soviet-designed reactors is a coordinated, broad-based effort in cooperation with other donor countries. DOE is accomplishing its mission by strengthening the operational and physical condition of the plants, enhancing the host countries' safety-related practices, and supporting the development of an indigenous nuclear safety infrastructure.

Safety activities are conducted in collaboration with host-country personnel at nuclear power plants (NPPs), scientific and technical institutes, and government agencies. Close working relationships have been established with 15 NPPs and 30 scientific institutes and government agencies in the host countries. During FY 1997, DOE efforts significantly improved the safety of Soviet-designed reactors.

Armenia

The long-term objective for the **Armenia Nuclear Reactor Safety Program** is facilitation of the early shutdown of the only operating VVER 440/230 reactor at Medzamor (Unit 2) by 2004, and the prevention of the start-up of Unit 1. With U.S. assistance, several projects to improve near-term safety at Armenia NPP Unit 2 are under way, and will be completed in 1998. These projects include fire safety improvements, completion of a nuclear service water system, installation of an auxiliary feedwater system, and installation of fast-acting main steam isolation valves. As one element of the fire safety project, fire resistant flooring material has been provided and is being installed.

Russia

Safety System Upgrades: The Kola and Kursk NPPs have been provided reliable backup electrical power systems to ensure power is available during an emergency. The Kursk plant also has been provided ultrasonic test equipment to detect flaws in critical piping and a safety parameter display system that enables the staff to quickly assess abnormal conditions and take corrective actions. U.S. and Russian specialists completed a four-year project that substantially reduced leaks in the Kola Unit 2 confinement system. A safety parameter display system is scheduled to be in operation at the Novovoronezh NPP by December 1997.

Training and Simulator Upgrades: With U.S. support, Russia has established a successful nuclear training center that employs the Systematic Approach to Training (a method used at all U.S. NPPs) at the Balakovo NPP. Instructors at the Balakovo training center, with U.S. support, have developed and conducted 12 job-specific maintenance and operations courses, as well as six general courses on safety-related topics. More than 1600 workers from Russian NPPs have been trained at the center. During FY 1998, U.S.-trained instructors from the training center will train instructors at other NPPs in Russia. Key components were delivered for the Kola and Kalinin full-scope simulators. Simulators, which mimic reactor operations, are used to train NPP staff.

Operational Safety: The U.S. has supported Russian NPP personnel in completing and implementing management and operational control procedures that promote safety through improved operating practices. Russian specialists also have been trained to develop symptom-based emergency operating instructions that promote safety through improved accident mitigation strategies. During FY 1998 these specialists, with U.S. support, will perform analyses needed to justify the draft emergency operating instructions for each of the four major models of Soviet-designed reactors in Russia. The Novovoronezh NPP staff has drafted a complete set of 29 symptom-based emergency operating instructions and has implemented 22. The U.S. has provided PRONET software and training to personnel at the Russian Institute VNIIAES and three Russian NPPs. The software is used to generate and manage updates to emergency operating instructions and other procedures.

Safety Maintenance Equipment Upgrades: The U.S. provided valve-seat resurfacing equipment, pipe lathe/weld preparation machines, and vibration monitoring and shaft alignment systems to significantly improve safety maintenance at the Kursk, Leningrad, and Smolensk NPPs.

Fire Safety Upgrades: The U.S. transferred the technology for manufacturing fire doors to the Russian firm, Atomremmash. Atomremmash delivered 400 fire doors to the Smolensk NPP in December 1996. U.S. and Russian specialists established methodologies for performing fire hazard analyses at Soviet-designed reactors. Trained by U.S. experts, Russian analysts now are performing a fire hazards analysis at Smolensk Unit 3. Protective clothing, spray hose nozzles, and 80 self-contained breathing units were provided to Smolensk NPP fire fighters.

Plant Safety Evaluations: In-depth safety assessments are under way at Kola, Leningrad, and Novovoronezh NPPs. These assessments provide a documented safety design basis and plant risk profile to support safe plant operation. They also provide technical justification for proceeding with appropriate safety upgrades. Initial results from the probabilistic and deterministic studies performed as part of the assessments are expected by the end of FY 1998. All assessments under way are scheduled to be completed by the end of FY 2000. U.S. support for developing the safety analysis infrastructure at Soviet-designed reactors has included introductory safety analysis training to over 30 technical specialists from Russian NPPs and technical support organizations.

Ukraine

In FY 1997, the Department of Energy (DOE) continued its extensive cooperative nuclear safety activities with Ukraine. With DOE support Ukraine is preparing for the shutdown by 2000 of Chornobyl Unit 3, Chornobyl's last operating unit and implementation of the G-7 Shelter Implementation Plan. Accomplishments in FY 1997 include: the establishment of the Chornobyl Center for Nuclear Safety, Radioactive waste, and Radioecology to address socioeconomic impacts of Chornobyl's closure; provision of initial shelter renovation equipment and worker safety improvements; development of technical strategies for eventual shutdown and deactivation of Chornobyl; expansion of the plant heating system needed to support shutdown and shelter renovation; and implementation of operational safety improvements at Unit 3 to reduce its risk until shutdown. At Ukraine's other nuclear power plants, DOE continues to support further improvements in nuclear safety through: improved emergency procedures, improved operator training courses, operator training simulators, safety parameter

display systems, the completion of safety analysis reports, fire safety improvements, and improved maintenance of safety-related equipment.

Chornobyl Center for Nuclear Safety, Radioactive Waste, and Radioecology: With U.S. support, experts at the Chornobyl Center performed a risk assessment of the Shelter. This assessment concluded a negligible risk exists of a serious accident occurring at reactor Unit 3 in the event the shelter around the ruined reactor Unit 4 collapses. An U.S.-provided, satellite-based communications system was installed at the Chornobyl Center. The system gives the Center e-mail and reliable telephone service, and videoconferencing access to the rest of the world. The system also provides access to information databases of partnering technical organizations.

Chornobyl Shelter Renovation and Worker Safety: At the June 1997 Summit at Denver, the G-7 agreed to provide \$300 million to support renovation and replacement of the deteriorating “sarcophagus” which entombs the highly radioactive remains inside Chornobyl’s destroyed Unit 4 reactor. This program, developed by the G-7 members and Ukraine, the “Shelter Implementation Plan” (SIP), is designed to support solution of short and long-term problems associated with the sarcophagus. In November 1997 Vice President Gore and Ukrainian President Kuchma hosted an international pledging conference in New York to enlist the support of governments. At that conference, the U.S. Government pledged \$78 million as its contribution to this endeavor, and has already contributed \$25 million out of this amount directly to the European Bank for Reconstruction and Development (EBRD) for management under the Chornobyl Shelter Fund. The plan details measures to protect workers and the environment, prevent the shelter from collapsing, and construct a new shelter to cover the existing structure. U.S. experts provided the primary technical support for developing the plan. The U.S. also began providing equipment and training in four primary areas: radiation dose reduction, nuclear criticality monitoring, dust suppression, and industrial safety.

Training and Simulator Upgrades: With U.S. support, Ukraine has established a successful nuclear training center that employs the Systematic Approach to Training (a method used at all U.S. nuclear power plants) at the Khmelnytsky NPP. At the training center, instructors developed and conducted eight job-specific maintenance and operations courses and three general courses on safety-related topics. More than 1400 workers from Ukrainian NPPs have been trained at the center. The U.S.-trained instructors from the training center now are working with U.S. experts to train instructors at three other Ukrainian plants—Rivne, South Ukraine and Zaporizhzhya. An expanded training program is scheduled to take place at the Chornobyl NPP in FY 1998.

A full-scope simulator was delivered and installed at the Khmelnytsky NPP. The hardware complex for the full scope simulator at the Ukrainian Engineering Technical Center also was delivered and installed. The Engineering Technical Center serves as a prime contractor for developing full-scope simulators in Ukraine. Key components were delivered for the full-scope simulator at South Ukraine Unit 3. An analytical simulator for the Chornobyl NPP is scheduled to be delivered during FY 1998.

Operational Safety Procedure Development: The U.S. has supported Ukrainian NPP personnel in completing and implementing management and operational control procedures that promote safety through improved operating practices. Ukrainian specialists have been trained to develop symptom-based emergency operating instructions that promote safety through improved accident mitigation strategies. Ukraine’s Zaporizhzhya and Chornobyl NPPs have drafted complete sets of site-specific safety instructions.

Safety System and Equipment Upgrades: The U.S. is providing safety parameter display systems (SPDSs) to Chornobyl Unit 3 and all 11 of the operational VVERE 1000 reactor units in Ukraine. The Chornobyl Unit 3 SPDS is scheduled to be operational by August 1998. The first two SPDSs at the Zaporizhzhya plant are slated to be operational by August 1998 and at the Khmelnytsky plant by September 1998. The U.S. provided pipe lathe/weld preparation equipment, vibration analysis and mechanical shaft alignment equipment, and nondestructive evaluation equipment to significantly improve safety maintenance at the Chornobyl NPP. The U.S. Government provided pipe lathe/weld preparation equipment, vibration analysis and mechanical shaft alignment equipment, and nondestructive evaluation equipment to significantly improve safety maintenance at the Chornobyl NPP.

Plant Safety Evaluations: In-depth safety assessments are under way at the South Ukraine, Zaporizhzhya, Rivne, and Khmelnytsky NPPs. These assessments provide a documented safety design basis and plant risk profile to support safe plant operation. They also provide technical justification for proceeding with appropriate safety upgrades. Initial results from the probabilistic and deterministic studies performed as part of the

assessments are expected by the end of FY 1998. All assessments under way are scheduled to be completed by the end of FY 2000. U.S. support for developing safety analysis infrastructure at Soviet-designed reactors has included introductory safety analysis training to over 20 technical specialists from Ukraine NPPs and technical support organizations.

Fire Safety Upgrades: Technology for manufacturing fire doors was transferred to the Ukrainian firm, Askenn Ltd. Askenn Ltd. delivered 125 fire doors to the Zaporizhzhya NPP and 250 fire doors to the Chornobyl NPP. U.S. and Ukrainian specialists established methodologies for performing fire hazard analyses at Soviet-designed reactors. Ukrainian analysts, trained by U.S. experts, now have the capability to perform fire hazards analyses for their NPPs. The Zaporizhzhya NPP has received fire retardant materials to coat electrical cables and the room-to-room penetrations through which the cables pass. The plant also has received fire brigade gear and fire and smoke detectors.

U.S. NUCLEAR REGULATORY COMMISSION (NRC) - NUCLEAR SAFETY REGULATION PROGRAM

The U.S. Nuclear Regulatory commission (NRC) continued its efforts in FY 1997 to strengthen the nuclear safety and regulatory authorities of the countries of the NIS that operate Soviet-designed nuclear reactors. Safety assistance activities in Russia, Ukraine, Armenia, and Kazakhstan focused on increasing the regulatory authorities institutional capacity and stature. Since 1992 over 600 Russian, Ukrainian, Kazakh and Armenian regulators have received training from NRC.

Armenia

Beginning in 1994, NRC assistance to the Armenian Nuclear regulatory Authority focused on such areas as fire protection, radiation embrittlement of metals, radioactive waste and spent fuel management, seismic issues and decommissioning of nuclear power plants. In FY 1997 30 Armenian regulators received training through the NRC assistance program.

Kazakhstan

The NRC has provided training for Kazakh Atomic Energy Agency personnel in such areas as inspection techniques for operating nuclear power and research reactors and licensing of nuclear power plants, as well as supporting the Agency's in developing a safety analysis review capability.

Russia

Since 1997 NRC regulatory assistance to the Russian Federal Nuclear and Radiation Safety Authority (GAN) has included licensing of nuclear power plants, development of a legislative basis for nuclear regulation and legal enforcement, development of an emergency response capability, development of an analytical simulator and a regulatory training program and center, and other safety-related activities. In addition, the NRC worked with GAN during 1997 to develop a probabilistic risk assessment of the Kalinin Nuclear Power Plant which seeks to identify design and operational vulnerabilities, thus helping to reduce the risk of a reactor core accident.

Ukraine

In FY 1997, NRC completed work on the VVER 1000 model for the analytical simulator which will be operational in early 1998. With NRC assistance, the Ukraine Nuclear Regulatory Authority (NRA) completed the first phase of the emergency crisis response facility for handling accidents at any of Ukraine's nuclear power plants. As a part of this program NRA was assisted in developing an integrated approach of handling accident scenarios on the analytical simulator to the emergency response center. During the year, NRC helped establish the regulatory training program for NRA, assisted in the development of a system for NRA to conduct safety analysis, and completed setting up a computer-based network system for NRA personnel. NRC continues to assist with joint inspection activity planning and will be hosting NRA representatives at U.S. nuclear plants.

U.S. ENVIRONMENTAL PROTECTION AGENCY (EPA)

During FY 1997, EPA continued to help Georgia, Moldova, Russia and Ukraine establish Regional Environmental Centers, slated to open in mid-1998 in Tbilisi, Chisinau, Moscow, and Kiev. This concept was endorsed at the Third "Environment for Europe" Ministerial Conference in Sofia, Bulgaria in October 1995, where the U.S. Government committed \$1 million to support the establishment of these centers. Through FY 1997 \$700,000 had been provided to this effort. The centers will facilitate public participation in environmental decision-making; serve as a mechanism for bringing relevant government, NGOs and private sector entities together; promote public awareness of environmental issues, and encourage action on transboundary environmental problems.

Russia: The U.S. Environmental Protection Agency (EPA) has helped reform the Russian air quality management system, including the following areas: ambient monitoring, stack testing, emissions inventories, air dispersion models, control strategies, and enforcement mechanisms. In Volgograd, the EPA introduced low-cost pollution prevention and control measures at 8 factories which reduced stationary-source particulate emissions by an estimated 8 percent citywide. This includes the installation of "pre-cast deltas" at Volgograd's Red October Steel Plant which can reduce fugitive emissions by up to 50 percent and could improve efficiency at all of Russia's electric-arc furnaces. Other U.S. technology environmental measures can significantly reduce pollution; these include "E-Sox" which reduces SO₂ emissions at coal-fired power plants and "reburn" which cuts allows electric utilities to cut NO_x emissions in half. The potential for total emissions reductions in Volgograd is 30-35 percent if all EPA-recommended measures are implemented. The new air-monitoring techniques demonstrated in Volgograd were approved by federal decree, thereby expanding their application throughout Russia.

A new health-risk assessment methodology was tested in seven Russian cities, resulting in the establishment of a federal working group and the drafting of an action plan to utilize this methodology on a national scale, including necessary legislative amendments to various laws and regulations. Environmental education pilot programs in the Moscow *Oblast* were expanded to an additional 80 regions throughout Russia. Since this past summer, 15 grants have been provided to Russian organizations to implement environmental activities in 32 different regions throughout Russia. In addition, in an effort to further integrate environmental issues into market reform, a new pilot training effort was initiated to introduce ISO 14,000 management standards into Russian industrial practice, including representatives from key industrial enterprises throughout Russia.

Ukraine: In 1997 the Environmental Protection Agency (EPA) delivered a \$1 million state-of-the-art mobile radio-ecological laboratory to the Ministry of Environment and Nuclear Safety to monitor contamination at nuclear power plants, uranium mines and the city of Slavutych, near Chornobyl. EPA also completed the "roll-out" of the Kaniv Reservoir Assessment to the Dnipro Estuary, delivered environmental education materials in partnership with the Peace Corps, produced ecological television programs, continued technical assistance in national pesticide management and conducted an environmental assessment of oil field development in Ivano-Frankivsk.

SECURITY PROGRAMS

U.S. DEPARTMENT OF DEFENSE (DoD) - COOPERATIVE THREAT REDUCTION (CTR) PROGRAM

The DoD Cooperative Threat Reduction (CTR or “Nunn-Lugar”) Program was initiated in FY 1992 to reduce the threat to the United States from the weapons of mass destruction remaining on the territory of the former Soviet Union. Under the CTR Program, DoD provides assistance to states certified as eligible—currently Russia, Ukraine, Kazakhstan, Georgia, Uzbekistan and Moldova—to promote denuclearization and demilitarization, and to prevent weapons proliferation. Through the CTR Program, the U.S. Government helped Belarus, Kazakhstan and Ukraine become nuclear-weapons-free states, and is helping these countries fulfill other arms control commitments, as well as accelerating START Treaty reductions in Russia. CTR projects support the safe, secure transport of nuclear weapons prior to their destruction and the safeguarding and storage of nuclear materials. CTR efforts also seek to help Russia initiate and accelerate the destruction of chemical weapons. Pursuant to legislative requirements, the CTR Program provides separate, detailed semi-annual reports to Congress.

From FY 1992 to FY 1997, DoD was authorized \$2.251 billion for the CTR Program. Of the \$2.251 billion, current authority is \$1.890 billion, as some funds were rescinded or expired before they could be obligated. As of 30 September 1997, congressional notification of proposed obligations had been satisfied for \$1.881 billion of these funds. Proposed obligations for \$339.6 million in FY 1997 funds were notified to the Congress on 24 March 1997, 18 June 1997, and 28 June 1997. Obligations through 30 September 1997 were \$1.553 billion, representing 83 percent of the total available.

Overall U.S. Government CTR assistance has supported or encouraged the following major developments over the life of the program:

- The decisions by Belarus, Ukraine and Kazakhstan to become non-nuclear-weapons states and the implementation of those decisions;
- Withdrawal of over 3,300 strategic warheads from Ukraine, Kazakhstan, and Belarus to Russia for eventual dismantlement;
- Early deactivation of all SS-24 ICBMs and elimination of 83 SS-19 missile and launch control silos and 55 SS-19 ICBMs in Ukraine;
- Purchase and transfer for secure storage of nearly 600 kilograms of weapon-usable uranium from Kazakhstan to the United States;
- Purchase of 21 nuclear-capable MiG-29 airplanes, 500 air-to-air missiles, and associated equipment from Moldova;
- Removal of 104 SS-18 ICBMs from their launchers in Kazakhstan and return to Russia;
- Elimination of 93 SS-18 silo launchers in Kazakhstan;
- Safe and secure withdrawal of all 81 SS-25 mobile ICBMs and launchers from Belarus to Russia;
- Elimination in Russia, using CTR-provided equipment, of 80 SLBM launchers, 50 ICBM silos, 20 strategic bombers, and over 181 missiles;
- Completion of START Treaty government-to-government communication links;
- Initial support of nearly 15,000 former Soviet weapons scientists and engineers by the International Science and Technology Center (ISTC) in Moscow and Science and Technology Center in Ukraine (STCU) in peaceful research projects (funding shifted in FY 1996 to the State Department Science Center program);

- Establishment of the Civilian Research and Development Foundation (CRDF), which awarded its first grants in 1996 to help civilian scientists and engineers pursue peaceful research opportunities and help preserve NIS scientific infrastructure;
- Enhancement of NIS export control capabilities; and
- Enhanced nuclear material protection, control and accounting capabilities initiated at over 40 nuclear institutes and facilities in the NIS (funding responsibility for these activities transferred in FY 1995 to the Department of Energy, Material Protection, Control and Accounting Program).

Weapons Destruction and Dismantlement: In this, the largest single category of CTR assistance, the U.S. Government is helping destroy delivery vehicles for strategic nuclear weapons and key weapons system components. CTR assistance is also being used to assist in elimination of chemical weapons. Key projects and 1997 highlights include:

- **Strategic Offensive Arms Elimination:** The U.S. Government is providing Russia equipment, training, services and logistic support to assist in expediting the elimination of strategic offensive arms pursuant to the START Treaties. This includes assistance with liquid rocket fuel disposition, SLBM launcher dismantlement, solid rocket motor elimination, SS-18 dismantlement, heavy bomber dismantlement and other projects. This also includes provision of equipment for emergency support in case of an accident involving the transport or elimination of missiles. In Ukraine, the U.S. Government is providing assistance to deactivate SS-19 and SS-24 missiles, dismantle their silos, and neutralize the fuel from those missiles. With CTR assistance, Ukraine became a non-nuclear weapons state in June 1996. In Belarus, the U.S. is assisting in the disposition of liquid rocket fuel and the elimination of SS-25 launcher foundations in accordance with START procedures. The last SS-25 nuclear rocket was removed from Belarus in November 1996. In Kazakhstan, the U.S. Government is providing support to eliminate SS-18 launch and launch control silos and to close the nuclear weapons test tunnels at the Degelen Mountain complex.
- **Chemical Weapons Destruction:** The U.S. Government is also helping Russia to “jump start” the process of chemical weapons (CW) destruction. Efforts have been focused toward assisting the Russian Federation in preparing a site-specific, comprehensive chemical-weapons destruction plan for the Shchuch'ye site. In 1997, at the Chemical Senior Implementing Group meeting (CHEMSIG), DoD representatives and representatives from the Russian Federation President's Committee and the Ministry of Defense (MOD) agreed on a joint project plan for the construction of a chemical weapons destruction facility. The CW destruction project will also provide a Central Analytical Laboratory (CAL), which will enhance Russia's ability to conduct chemical agent monitoring at CW storage and destruction sites. The U.S. Government also procured and delivered three mobile laboratories for the CAL.

Chain of Custody: Under “Chain of Custody,” CTR projects help to prevent the proliferation of nuclear materials, increase the security of nuclear warheads while in transit or in storage, and ensure that fissile materials from dismantled warheads are stored in safe, centralized, and environmentally sound locations. Key projects include:

- **Fissile Material Storage Facility at Mayak:** Construction continues on the storage facility at Mayak. Site clearing and deliveries of construction equipment have been completed and, during FY 1997, the foundation was finished and work began on the walls. Some construction materials have been procured through CTR and the U.S. Government continues to assist Russia with its design efforts. The U.S. also is providing the Russian Ministry of Atomic Energy with containers for the transport and storage of fissile materials from dismantled weapons. Production of the containers began in October 1995 and initial shipments to Russia began in December 1995. To date, nearly 17,000 fissile material containers have been delivered.
- **Weapons Protection Control and Accounting (WPC&A):** This CTR project focuses on improving the security of nuclear weapons both during interim storage and transportation. The project was formally established in April 1995 under two CTR implementing agreements with Russia. At the sixth Nuclear Weapons Security Group (NSWG), held in June 1996, DoD and MOD representatives reviewed the status of ongoing WPC&A projects, including automated inventory control and management systems, computer modeling, the personnel reliability program, supercontainers, emergency support equipment, and the railcar upgrade program. All projects continue to proceed satisfactorily.

- **Material Protection, Control and Accountability (MPC&A) Projects:** MPC&A efforts are implemented by the Department of Energy to enhance security of fissile materials at NIS facilities and institutes and enhance capabilities of the cooperating parties for preventing, detecting and deterring theft, diversion, or other unauthorized use of nuclear materials. Total CTR funding allocated for MPC&A activities from FY 1992-95 was \$78.5 million. The Department of Energy manages these programs and beginning in FY 1996, directly funded most MPC&A activities. (Details under DOE-MPC&A section below.)
- **Enhancing Export Controls:** Through FY 1995, approximately \$39 million for export control assistance to the NIS was funded under the CTR Program. This assistance was provided to Belarus, Kazakhstan, Russia, and Ukraine to help establish effective and sustainable national export control systems in these states. In FY 1996 funding responsibility for NIS export control assistance shifted to the State Department. With this assistance, the U.S. Government has conducted exchanges with government and industry representatives to acquaint them with the need for effective export controls; conducted training for border guards and customs agents; and purchased and delivered equipment necessary for effective export control enforcement. (Details under State-NDF-Export Control section below.)

Demilitarization: The third major CTR area of assistance involves efforts to facilitate the NIS demilitarization and transition to democratic institutions and market economies. These nonproliferation efforts seek to provide alternative peaceful, civilian uses for former Soviet weapons of mass destruction related production resources and alternative employment opportunities for the former Soviet weapons scientists and engineers. There are several projects that have been established to provide this assistance.

- **Defense Conversion:** No new defense conversion efforts were initiated under CTR in FY 1997, however, ongoing projects continued to assist in the transformation of the former Soviet defense and military complex into peaceful and productive civilian commercial entities. DoD previously awarded 17 contracts to 13 U.S. companies to work with former Soviet Union WMD facilities to convert portions of their production capability into non-military commercial ventures. Some examples of the products being produced include integrated circuit boards, laser pointers, hearing aids, dental equipment, and pressure vessels. These projects have provided alternative employment to approximately 1,500 former defense enterprise workers supporting both economic reform and nonproliferation objectives.
- **Defense Enterprise Fund:** In FY 1995, CTR shifted the focus of defense conversion efforts from direct creation of joint ventures to the Defense Enterprise Fund (DEF). The DEF provides loans and grants and makes equity investments in joint defense conversion projects involving U.S. companies and former Soviet Union enterprises formerly involved in weapons of mass destruction production. Such activities support both the national security objective of eliminating weapons production capability and the U.S. Government assistance objective to promote market economies and democratic political systems. These projects ensure that the gains made under the CTR Program in reducing the threat from weapons of mass destruction will be long-lasting and irreversible. In FY 1997, funding responsibility for the DEF was transferred to the Department of State under the FREEDOM Support Act. (See Section on Enterprise Funds)
- **Science Centers:** The International Science and Technology Center (ISTC) in Moscow and the Science and Technology Center in Ukraine (STCU) were established to provide former Soviet weapons scientists opportunities to work on peaceful civilian research activities so they would not be tempted to sell their expertise to countries of proliferation concern. The Science Centers are multilateral efforts with the U.S., the EU, Japan and others providing contributions. Through FY 1995, under CTR, the U.S. Government contributed \$49 million for the ISTC and \$15 million for the STCU, administered by the Department of State. Beginning in FY 1996, direct program funding responsibility shifted to the State Department under the FREEDOM Support Act. (See also State Science Centers Section below.)
- **Civilian Research and Development Foundation (CRDF):** The CRDF was established in August 1995 by the National Science Foundation with an initial CTR grant of \$5 million matched by a \$5 million gift from Mr. George Soros. The CRDF is a non-governmental, non-profit foundation that supports joint research and development (R&D) projects, including non-defense industrial research, for peaceful purposes. Its objectives include sustaining highly competent scientists and engineers in the NIS through productive R&D opportunities as an alternative to emigration, advancing defense conversion, and assisting with the development of a market economy in the NIS. (See section on CRDF).

- **Defense and Military Contacts:** In FY 1997, under a Memoranda of Understanding between DoD and the Ministries of Defense of Russia, Ukraine, and Kazakhstan, over 135 defense and military contacts events were funded through the CTR Program. These include high-level exchanges, exercises, unit exchanges and ship visits, and exchanges of delegations on defense and military topics.

CTR Country Highlights

(For status of International Science and Technology Center, Export Control, and Material Protection, Control and Accounting projects, and CRDF, see Department of State and Department of Energy sections below.)

Belarus

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	\$17,678,000	\$3,038,667
2. Emergency Response Training/Equipment	\$5,000,000	\$4,982,934
3. Industrial Partnerships	\$20,000,000	\$19,527,589
4. Defense Enterprise Fund	\$5,000,000	\$5,000,000
5. Defense and Military Contacts	\$3,524,000	\$1,064,864
6. Material Control and Accounting	\$3,000,000	\$2,669,683
7. Science and Technology Center	\$5,000,000	\$4,950,000
8. Export Control	\$15,933,000	\$13,048,057
9. Continuous Communications Link	\$2,166,000	\$1,163,533
10. Environmental Restoration	\$25,000,000	\$24,977,789
TOTAL:	\$102,301,000	\$80,423,117

As of 9/30/97

An Umbrella Agreement for CTR assistance, seven CTR implementing agreements, and one Memorandum of Understanding and Cooperation have been signed between the United States and Belarus. The Department of Defense has notified Congress of over \$102 million in CTR assistance to Belarus, of which over \$80 million was obligated through FY 1997.

Belarus was not certified as eligible to receive U.S. assistance during FY 1997 and the CTR Program is not permitted to enter into new contracts with prior-year funds for efforts in this country. At this time there are no active contract activities. Funds previously notified, including those which have been obligated but no longer needed, are being renotified for use in meeting objectives in other countries.

Although it is now a non-nuclear weapons state, WMD infrastructure from the FSU still exists in Belarus. If Belarus regains certification it is possible that activities to eliminate this infrastructure, such as the project to eliminate 81 SS-25 mobile ICBM fixed-structure launch pads, may be renewed after notification has been made.

Kazakhstan

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	\$78,500,000	\$49,266,327
2. WMD Infrastructure Elimination	\$23,500,000	\$15,576,476
3. Industrial Partnerships	\$15,000,000	\$14,862,156
4. Export Control	\$7,260,000	\$7,153,022
5. Material Control and Accounting	\$23,000,000	\$22,560,000
6. Government to Government Communications Link	\$2,300,000	\$2,290,055
7. Emergency Response Training/Equipment	\$5,000,000	\$4,978,170
8. Science and Technology Center	\$9,000,000	\$9,000,000
9. Defense and Military Contacts	\$1,900,000	\$1,174,608
10. Defense Enterprise Fund	\$7,000,000	\$7,000,000
TOTAL:	\$172,460,000	\$133,860,815

As of 9/30/97

An Umbrella Agreement for CTR assistance, seven CTR implementing agreements and one Memorandum of Understanding and Cooperation have been signed between the United States and Kazakhstan. DoD has notified Congress of over \$172 million in CTR assistance to Kazakhstan, of which over \$133 million has been obligated through FY 1997. Overall, programs with Kazakhstan have gone smoothly, although there are occasional difficulties with taxation and licensing. Programs include:

Strategic Offensive Arms Elimination (SOAE): The primary project under this agreement is to assist Kazakhstan in the safe elimination and clean up of all SS-18 silo launchers and launch control centers, training silos, and silo test launchers. CTR assistance funded the elimination and turn over of 54 silo sites to the Kazakhstani Government and the closure of 103 nuclear weapons test tunnels at Degelen Mountain Test Tunnel Complex. Kazakhstan plans to salvage some equipment prior to Russia destroying the silos; destruction will be followed by clean-up of the destroyed silo sites. Additional dismantlement assistance such as elimination of infrastructure associated with strategic offensive arms, disposition of excess liquid rocket fuel, and elimination of heavy bombers will also be provided.

Government-to-Government Communications Link (GGCL): Under this project, the U.S. Government is helping Kazakhstan develop the capability to fulfill its reporting requirements under the INF and START Treaties. The link is now installed and operational.

Emergency Response Equipment and Training: This project provides equipment and training to respond to an accident or incident involving a nuclear weapon or fissile material. Deliveries of equipment (ranging from chemical and fire fighting protective clothing, air sampling and radiation monitors to personal dosimeters) are complete.

Expanded Defense and Military Contacts: Assistance is provided to promote better understanding and cooperation between U.S. and Kazakhstani military establishments. Eight events in FY 1996 were funded including a U.S. Coast Guard aviation team visit, a Kazakhstani Navy reciprocal visit, and Kazakhstani participation at disaster relief conference.

Defense Conversion/Industrial Partnerships: Prior-year funding was provided to convert former military enterprises to the production of civilian goods. (The CTR Program continues to manage these projects until all contractual requirements have been met.) The following projects were funded:

- Byelocorp Scientific, Inc: to convert Gidromash, a former missile and aircraft systems production facility, to design, manufacture and distribute valves and pressure vessels for cryogenic materials and gases.
- Allen & Associates International: to convert BioMedPreparat, a former biological warfare research and production facility, to manufacture, package and distribute vitamins.

- Kras, together with Kazakhstan's National Nuclear Center: to convert a former nuclear weapons testing facility to a printed circuit board production plant.
- AT&T: to convert KazInformTelecom into an international telecommunications company and to establish wireless telecommunication in 11 cities using Sary Shagan as an international telecommunications downlink.

Export Control: As part of the effort to create a viable export control regime in Kazakhstan, CTR delivered and installed computer networks with 63 workstations for Export Control personnel.

Defense Enterprise Fund (DEF): Seven million dollars of DEF funding has been allocated for equity investments, grants, and loans in joint ventures with Kazakhstani WMD enterprises. To date, \$3 million had been approved for investment with ATT, CDC, and KVT to provide operating capital for the telecommunications project described above.

Weapons of Mass Destruction Infrastructure Elimination (WMDIE): Under CTR, assistance is being provided to eliminate facilities or infrastructure previously supporting nuclear forces or other WMD. The WMDIE program includes a \$7M project to assist Kazakhstan in the elimination of infrastructure associated with nuclear weapons test tunnels at Degelen Mountain. Additionally, the WMDIE program includes assistance in infrastructure dismantlement at a former Soviet plant at Stepnogorsk, Kazakhstan designed for production of biological weapons (BW). An inter-agency team has surveyed the BW facility at Stepnogorsk and is preparing an initial assessment. This project is an important element of the Multi-Agency Stepnogorsk Initiative, developed in 1996 to address a wide range of issues related to elimination, dismantlement and redirection of the production facilities and weapons expertise from the Stepnogorsk BW facility.

Audits and Examinations (A&Es): A successful A&E of the Government-to-Government Communications Link project was conducted in Kazakhstan in July 1995. In addition, an A&E on Export Control assistance was conducted in May 1996 with only one minor discrepancy identified; corrective action has since been initiated.

Russia

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Offensive Arms Elimination	\$295,800,000*	\$239,889,413
2. Chemical Weapons Destruction	\$138,700,000	\$133,178,938
3. Fissile Material Storage Facility	\$150,000,000	\$149,470,002
4. Fissile Material Storage Containers	\$73,500,000	\$62,496,6490
5. Fissile Material Storage Facility Design	\$15,000,000	\$14,998,584
6. Weapons Storage Security	\$55,500,000	\$13,892,698
7. Weapons Transportation Security	\$34,000,000	\$30,275,089
8. Industrial Partnerships	\$38,000,000	\$35,969,484
9. Defense Enterprise Fund	\$10,000,000	\$10,000,000
10. Defense and Military Contacts	\$14,548,000	\$11,676,483
11. Emergency Response Training/Equipment	\$15,000,000	\$14, 803,894
12. Material Control and Accounting	\$45,000,000	\$44,624,149
13. International Science and Technology Center	\$35,000,000	\$34,999,964
14. Export Control	\$2,260,000	\$2,259,196
15. Security Enhancement for Russian Railcars	\$21,500,000	\$21,494,092
16. Armored Blankets	\$5,000,000	\$3,244,083
17. Arctic Nuclear Waste	\$30,000,000	\$29,949,356
18. Research and Development Foundation	\$10,000,000	\$10,000,000
19. Reactor Core Conversion	\$10,000,000	\$1,705,829
TOTAL:	\$997,130,000	\$864,927,902

as of 9/30/97

An Umbrella Agreement for CTR assistance, twelve CTR implementing agreements, one implementing protocol, and one Memorandum of Understanding and Cooperation have been signed between the United States and Russia. DoD has notified Congress of over \$997 million in CTR assistance to Russia, of which over \$864 million was obligated through FY 1997. Cooperation with Russia has evolved over the years. Difficulties often arise in administering the CTR Program in Russia as the U.S. Government must work with three separate organizations: the Ministry of Defense; Ministry of Atomic Energy; and the Ministry for Defense Industry (MDI).

Strategic Offensive Arms Elimination: The U.S. Government is providing Russia with equipment, training, services, and logistic support to assist in expediting the elimination of strategic offensive arms pursuant to the START Treaties. This includes assistance with liquid rocket fuel disposition, SLBM launcher dismantlement, solid rocket motor elimination, SS-18 dismantlement, heavy bomber dismantlement, and other projects. This program also provides equipment for emergency support in case of an accident involving the transport or elimination of missiles.

In the second half of FY 1997, the CTR Program awarded a contract to eliminate 914 ICBM solid rocket motors to Lockheed Martin. The program also shipped two of three Liquid Propellant Disposition systems to Russia and awarded equipment contracts for submarine and SS-18 missile elimination. A pre-proposal conference, a contractor site visit, and sub-contractor fairs were held at Zvezdochka and Zvezda START SLBM elimination locations for equipment to reduce low-level radioactive waste in support of SLBM launcher elimination. A contract was defined and equipment was accepted to provide steam and hydrogen for the UDMH disposition system as well as a contract to transport SLBMs to a neutralization and dismantlement facility.

Emergency Response Equipment and Training: The U.S. Government provided equipment, training, and technical manuals to enhance Russia's capability to respond to accidents involving nuclear weapons in transit for dismantlement activities. This project is scheduled for completion by the end of 1996.

Fissile Material Storage Facility: The U.S. Government is providing assistance to Russia for safe and secure storage of fissile materials derived from dismantled nuclear weapons by providing design and construction support as well as construction and facility equipment for a fissile material storage facility at Mayak, Russia. The U.S. Government expects Russia to budget an amount sufficient to cover the remaining facility construction costs and all of the related infrastructure costs. Through FY 1997, the U.S. Government has provided technical design assistance materials, services, and training for the Russian-led design effort for the storage facility and is assisting the Russian-led construction of the facility and procurement of facility equipment. U.S.-provided construction equipment has been delivered to Mayak. During FY 1997 continued construction on the interior and exterior walls, ventilation tunnels, and support buildings for the first half of the Fissile Material Storage Facility at Mayak.

Fissile Material Containers: The U.S. Government is providing MinAtom with containers for the transport and storage of fissile material from dismantled weapons. About 24,000 of these Fissile Material Containers (FMCs) will be stored in the Mayak facility. In the second half of FY 1997, 4,200 fissile material containers were delivered to the Ministry of Atomic Energy (MinAtom), bringing the total delivered to date to 16,788.

Rail Car Enhancements: The U.S. Government has provided training and equipment to modify cargo and guard rail cars for transport of nuclear weapons destined for dismantlement. All kits have now been installed in 125 railcars.

Nuclear Weapons Transportation Security: The U.S. Government continued to provide assistance to enhance security of nuclear weapons during transport in connection with their destruction. To date, CTR has delivered 125 supercontainers to the Ministry of Defense for transporting nuclear warheads and also has delivered additional equipment for the five Emergency Support mobile complexes.

Nuclear Weapons Storage Security: The U.S. Government is providing assistance to enhance the security of nuclear weapons storage in connection with their destruction. All supporting projects are scheduled to be completed by 2001. Initial computer equipment for an automated inventory management system was procured and delivered in 1996. In the second half of FY 1997, the CTR Program inspected, accepted, and released 30KM (out of 50KM to be produced) of physical security equipment to the Ministry of Defense (MOD). Training was conducted for MOD representatives on the Analytic System and Software for Evaluating Safeguards and Security (ASSESS) and for the MOD nuclear weapons Automated Inventory and Control Management System

(AICMS). In addition, several contracts were awarded to establish a Personnel Reliability Program for MOD personnel and for additional parts for the ACIMS. New projects were also established to provide an Information Analysis System (IAS) to support MOD's responsiveness to potential nuclear warhead accidents and to provide radiation dosimeters to MOD personnel working with nuclear weapons.

Civilian Research and Development Foundation (CRDF): The CRDF was initially established in August 1995 to support joint research and development opportunities in the former Soviet Union and to increase and encourage links between U.S. and NIS scientists and businesses. CTR funds were contingent upon the receipt of matching funds. (See CRDF).

Chemical Weapons Destruction Assistance: The U.S. Government is assisting Russia in the destruction of its chemical weapons stockpile and materials. This assistance program has four elements: a comprehensive implementation plan, joint process evaluation, a central analytical laboratory, and a pilot CW destruction facility. The Russian concept for a destruction program has become more clearly defined and the U.S. Government plans to provide CTR assistance for the construction of the pilot CW destruction facility with a destruction capacity of 25 percent that of a full facility for nerve-agent filled artillery munitions.

In the second half of FY 1997, the CTR Program assisted in the development of the chemical munitions destruction process line, performed optimization testing of the Russian chemical agent destruction process, and completed preparation of the Justification of Investment for the Shchuch'ye chemical weapons destruction facility. Public hearings were conducted and public outreach/education offices were established at Kurgan and Shchuch'ye. In addition, an engineering survey of proposed locations for the Shchuch'ye chemical weapons destruction facility was begun and the 50 percent design level for the Central Chemical Weapons Analytical Laboratory (CAL) was achieved.

Defense Conversion: While in 1996, no new projects were initiated in this area, progress was made toward completing three industrial partnerships created between U.S. companies and Russian defense enterprises to convert former Soviet military industrial facilities to civilian production. Projects include the production of high performance hearing aids, dental chairs, and Russian air traffic control hardware and software. American Housing Technologies, Inc. is working with Russian defense firms to produce prefabricated housing for demobilized Russian officers and the Russian housing market. In addition, with prior-year CTR support, Commerce Department published the fifth edition of the Russian Defense Business Directory.

Defense Enterprise Fund: Through the DEF, the U.S. Government is assisting in the conversion and privatization of excess military/industrial capacity in the FSU by providing loans, grants, and equity investments in partnerships.

UKRAINE

PROJECT NAME	NOTIFIED	OBLIGATED
1. Strategic Nuclear Arms Elimination	\$289,700,000	\$251,931,944
2. WMD Infrastructure Elimination	\$23,400,000	9,993,069
3. Emergency Response Training/Equipment	\$3,400,000	\$3,162,186
4. Industrial Partnerships	\$55,000,000	\$54,951,154
5. Defense and Military Contacts	\$8,028,000	\$4,092,779
6. Material Control and Accounting	\$22,500,000	\$22,490,000
7. Science and Technology Center	\$15,000,000	\$15,000,000
8. Export Control	\$13,260,000	\$13,127,351
9. Government to Government Communications Link	\$2,222,000	\$1,738,578
10. Multilateral Nuclear Safety Initiative	\$11,000,000	\$11,000,000
TOTAL:	443,510,000	\$387,487,060

9/30/97

DoD has notified Congress of over \$443 million in CTR assistance to Ukraine, of which over \$387 million has been obligated through the end of FY 1997. CTR cooperation with Ukraine has improved markedly over the years, making it one of the most successful CTR programs.

Strategic Nuclear Arms Elimination (SNAE): Assistance is provided to facilitate START I implementation and to deactivate SS-19 and SS-24 missiles. Funding supports the procurement of equipment and the design of an ICBM neutralization facility. The facility was commissioned in July 1996 and is processing up to six missiles per month. A liquid rocket-fuel storage facility was completed in November 1995 to store the SS-19 fuel until a process is developed or determined for its eventual elimination.

In the second half of FY 1997, CTR assistance resulted in the elimination of 98 SS-19 silos and 57 SS-19 missiles and the completion of 412 apartments for demobilizing Strategic Rocket Forces (SRF) Officers. Contracts were awarded for the construction of an interim storage facility for SS-24 ICBMs as part of the elimination process and a contract was awarded which will prepare Ukrainian equipment for use in removing SS-24 ICBMs from their silo launchers.

Nuclear Infrastructure Elimination: Assistance is provided to eliminate facilities or infrastructure previously supporting nuclear forces; including physical plants, support systems and materials. These facilities were used to store, transfer, and dispose of rocket fuel and oxidizer for SS-19s, and for the partial purging of the SS-19s prior to transfer. During the reporting period, a contract was awarded to accomplish the Phase I surveys and assessments of the unified fill facilities and nuclear weapons storage areas. In addition, the SS-19 Silo Dismantlement Integrating contract was modified to incorporate the infrastructure dismantlement associated with the remaining seven SRF regiments.

Government-to-Government Communications Link: This project helped Ukraine develop the capability to fulfill its reporting requirements under the INF and START Treaties. The link is now installed and operational. A software upgrade was completed in March 1996. Software and operations training took place in mid-August 1996. The DoD and the Ukrainian MOD discussed the option of supporting a second communications link capability. Technical discussions on U.S. support for this second communications link have also taken place. The DoD has finalized system design, technical requirements, and associated implementation timetables. In addition, a contract option was initiated to procure the equipment for the second communications link.

Emergency Response Equipment and Training: In order to respond to and mitigate accidents when nuclear warheads were being moved to Russia for dismantlement, the CTR Program provided equipment, related training, and materials for Ukrainian emergency response teams. With warheads now removed to Russia, the program assists Ukraine to maintain its emergency response capability in support of other CTR objectives, including non-weapons nuclear incidents. While Ukraine has returned all nuclear warheads to Russia and is now a non-nuclear weapons state, MOD may utilize the CTR-provided equipment to respond to incidents involving non-weapons fissile materials such as at nuclear power plants or laboratories or during transport of fissile materials.

In the second half of FY 1997, DoD notified the Ministry of Defense that the project had been completed. Fire trucks provided under this project were lent by the MOD to participate in extinguishing a 12-alarm fire at the Dnipropetrovsk Engineering Plant in early May. The fire, which because of its proximity to barrels of gasoline had the potential to cause a major explosion, was extinguished in two and a half hours.

Civilian Cooperative Reactor Safety Upgrade: The U.S. Government, through the Department of Energy, is providing a computer-based nuclear power plant training reactor simulator. The project involves simulator hardware and software design and engineering, training, construction and testing, shipping, installation, spare parts, support, etc. During the reporting period, System integration was completed, pre-acceptance testing was initiated, and a spare simulation computer ordered.

Defense Conversion: While no new projects have been initiated in this area, progress has been made toward completing industrial partnerships created between U.S. companies and Ukrainian defense enterprises to convert former Soviet military industrial facilities to civilian production, including production of prefabricated housing for demobilized former Strategic Rocket forces officers. With CTR assistance, the U.S. Department of Commerce published the second edition of Investment Opportunities in Ukrainian Defense Conversion, a directory listing nearly 100 Ukrainian firms.

Audits and Examinations (A&Es): The CTR Program performs periodic Audits and Examinations (A&Es) to ensure that CTR assistance is fully accounted for and complies with the letter and spirit of CTR legislation and congressional intent. In the second half of FY 1997, eight successful A&Es were conducted.

U.S. DEPARTMENT OF DEFENSE (DoD) - ENVIRONMENTAL SECURITY PROGRAM

In 1995, the U.S. Department of Defense began discussions with the Norwegian and Russian Ministries of Defense on **Arctic Military Environmental Cooperation (AMEC)** to jointly address critical environmental issues related to these militaries' unique capabilities and activities in the Arctic region. In September 1996, Secretary of Defense Perry, Norwegian Minister of Defense Kosmo, and Russian Federation Minister of Defense Rodionov signed a declaration launching a cooperative effort among these three military forces under the AMEC framework. Throughout 1997, the AMEC program initiated support of joint activities to ensure the safe handling and storage of radioactive materials, to ensure proper disposal of hazardous toxic materials, and to exchange information on risk assessments and cleanup technologies and methods. Program funding and specific projects are provided by all three parties, with each country principally paying for its own participation. There are six initial projects to be conducted under the AMEC program:

- Development of a prototype container for interim storage of spent nuclear fuel;
- Technology review and implementation for solid radioactive waste volume reduction;
- Review and implementation of technologies for the improvement of interim storage facilities for solid radioactive waste;
- Health physics training and monitoring technologies;
- Remediation of hazardous waste sites on military bases; and
- Review and implementation of clean ship technologies.

In FY 1997, DoD saw further development of the program and initiation of the projects. Several contracts have been awarded and the total funding from DoD, DOE, and EPA was approximately \$1.5 million to implement all activities. Congress appropriated \$5 million for FY 1998 for AMEC program support. Additional funds from DOE and EPA will also support these efforts.

U.S. DEPARTMENT OF DEFENSE/FBI COUNTERPROLIFERATION PROGRAM

The National Defense Authorization Act for FY 1995 (P.L. 103-337), authorized the Department of Defense and FBI Counterproliferation Program to expand and improve the U.S. Government's efforts to deter, interdict, and prevent the possible proliferation and acquisition of weapons of mass destruction (WMD) by organized crime groups and individuals in Eastern Europe, the Baltic states and the states of the former Soviet Union (FSU). The focus of the program is on nuclear, chemical and biological weapons (NBC) law enforcement training to prevent smuggling and trafficking. The program's workplan is divided into three elements: policy consultations and program development, training and assistance, and equipment procurement. Throughout 1996, program plans were developed and the first country assessments were initiated to determine program requirements. The program has three principal objectives:

1. To assist in the establishment of a professional cadre of law enforcement personnel within participating nations who are trained and equipped to prevent, deter, and investigate crimes related to proliferation and/or diversion of weapons of mass destruction and related material;
2. To assist participating nations, where invited, in developing appropriate laws, regulations, and enforcement mechanisms in accordance with international standards; and
3. To build a solid and long-lasting bureaucratic framework reinforced by political commitment that would enable participating governments to address the proliferation problem.

Congress authorized DoD to reprogram up to \$10 million in support of this joint DoD/FBI training program in the NIS, Eastern Europe and the Baltics. Through FY 1997, funds obligated to implement this effort for the NIS were approximately \$1.5 million. In FY 1997, the DoD/FBI Counterproliferation Program conducted two large WMD

basic training courses. Training for 40 mid-to senior Kazakhstani (June 1997) and 40 Uzbekistani (August 1997) law enforcement officials was provided at the International Law Enforcement Academy (ILEA) in Budapest, Hungary. This training included judges, justice officials, customs, law enforcement, and national security officials.

In 1998, DoD plans to host at least three additional WMD basic training sessions, including one for 40 mid-to-senior Kyrgyz officials in February in Budapest. As part of the assistance program, DoD will begin a dialogue on related legal issues with Kazakhstan in March and Uzbekistan in April in Washington. DoD also intends to hold policy discussions with at least three other nations in 1998 and invite them to participate in the program.

U.S. DEPARTMENT OF DEFENSE - DoD/CUSTOMS COUNTERPROLIFERATION PROGRAM (INTERNATIONAL BORDER SECURITY PROGRAM)

The DoD/U.S. Customs Service Counterproliferation Program (International Border Security Program) was authorized in Section 1424, National Defense Authorization Act for FY 1997, titled "International Border Security."

The Program is designed to train customs and border guard officials in participating nations within the former Soviet Union, the Baltic states, and Eastern Europe to deter, detect, and investigate WMD related incidents and trafficking. The objectives of this program are:

1. To assist in the continuing establishment of a professional cadre of law enforcement including customs and border guards personnel;
2. To assist in developing appropriate legislation, laws, regulations and enforcement mechanisms; and
3. To assist in building a solid, long-lasting bureaucratic and political framework in participating nations.

During 1997, DoD and U.S. Customs Service met a number of key milestones in furthering the long-term objectives of this program. Highlights include the following:

- Developing an interagency-approved program workplan;
- Appointing the On-Site Inspection Agency as the program's executive agent;
- Obtaining presidential delegation of authority to the Secretary of Defense for certification of Newly Independent States (NIS) and subsequent Secretary of Defense certification of 10 nations;
- Conducting policy discussions on the objectives of this program in seven nations and issuing, through the Department of State, official invitations to participate in it;
- Drafting required bilateral agreements with each participating country;
- Consulting with the Department of State regarding texts and negotiating authority for umbrella and implementing agreements with all participating countries;
- Negotiating and concluding four agreements providing a legal framework for cooperation in stemming the proliferation of weapons of mass destruction with the following countries: Uzbekistan (6/23/97), Moldova (6/27/97), Georgia (7/17/97), and Kazakhstan (11/18/97); and
- Conducting the initial training under the program, which was the first international use of the new state-of-the-art hazardous materials facility at the Hanford Nuclear Site in Hanford, Washington.

Cumulative funding budgeted through FY 1997 for the DoD/Customs program was \$9 million for the NIS, the Baltic states, and Eastern Europe. DoD reports \$1.7 million has been obligated for the NIS and the remainder of these funds were obligated for activities in the Baltics and Eastern Europe or expired prior to obligation. Funding for FY 1998 (approximately \$2 million) is being provided by the programs' executive agent, the On-Site Inspection Agency (OSIA). Unlike the DoD/FBI Counterproliferation Program, this program is equipment-heavy in the initial year of the program implementation. In 1998 we plan to hold further policy discussions in Georgia, Azerbaijan, and Armenia, among other nations. WMD advisors will be placed in at least three nations, as well as at the International Atomic Energy Agency (IAEA). It is anticipated that equipment and training will be provided to at least 4 nations during 1998. Advanced training at the hazardous materials facility at the Hanford Nuclear Site will be developed for four nations, as well.

U.S. DEPARTMENT OF DEFENSE - MILITARY-TECHNICAL COOPERATIVE EFFORTS WITH THE NIS

In FY 1997, military-technical cooperative programs between the U.S. and NIS continued to expand. Leading this effort since 1993 have been the Department of Defense Science and Technology managers in the Services, laboratories, and agencies such as Ballistic Missile Defense Organization (BMDO), and Defense Advanced Research Projects Agency (DARPA). They have been able to build on their familiarity with NIS innovative research areas and historical collegial relationships with key Soviet scientists and engineers.

Defense Department contributions to NIS research and development efforts began with several million dollars in FY 1992, and increased to \$23.8 million in FY 1993 and \$23.0 million in FY 1994. Since FY 1995, the numbers have decreased to \$18.8, \$17.5 in FY 1996 and \$15.5 million in FY 1997. There is no specific line-item in the Defense Appropriations bill for cooperative programs with the NIS. Funding for these programs comes from multiple accounts across the Services and the Office of the Secretary of Defense (OSD).

Defense Department efforts to expand military-technical cooperation in the form of science and technology research programs and eventual armaments cooperation promotes U.S. national security interests in three areas:

1. Helps position NIS technologists for entry into nonmilitary markets (defense conversion);
2. Cultivates relationships and builds confidence between U.S. and NIS scientists and engineers, and between DoD and MOD policy makers; (strengthen alliances)
3. Expands U.S. and NIS knowledge of the others' research and development efforts in both familiar and advanced technologies (use technical cooperation as incentive for arms export restraint); and
4. Allows Department of Defense access to "cutting edge" technologies pioneered by scientists and engineers in the former Soviet Union.

This fourth point falls in line with the Secretary of Defense's policy statement of 23 March 1997: "In the evolving environment of coalition warfare, limited resources, and a global industrial and technology base, it is DoD policy that we utilize International Armaments Cooperation to the maximum extent feasible, consistent with sound business practice and with the overall political, economic, technological, and national security goals of the United States."

The Department of Defense has actively pursued a number of opportunities to expand its level of military-technical cooperation with the NIS. To date, cooperative efforts have taken the form of either contractual arrangements with foreign research centers or participation in the OSD-sponsored Foreign Comparative Testing (FCT) program. However, few government-to-government *collaborative* research and development programs have been initiated, and no cooperative armaments programs exist between the U.S. and NIS. This is due to several factors, including stringent controls by the respective governments in the region on areas of cooperation, and lack of government-to-government bilateral cooperative agreements.

Cooperative "umbrella" agreements with NIS would provide the necessary legal basis for subsequent detailed agreements on specific projects involving (1) data exchange, (2) sponsored work, and (3) joint research and development. Collaborative research and development could then lead to co-production programs, acquisition and cross-servicing agreements, and logistical support memoranda of understanding (MOUs), as exist between the United States and its NATO allies.

Russia

Our most pressing issue with Russia is the negotiation of the “umbrella” *Cooperative Agreement on Dual Use and Other Agreed Technologies* – an ongoing effort since 1994. Russian government reorganizations, problems defining enforcement of Russian intellectual property law, and; most importantly, Russian reluctance to share technology have all factored into the delay of an agreement. The Secretary of Defense has voiced support for an agreement during the February, 1997 Gore-Chernomyrdin Commission’s Defense Conversion Committee, and at the May 1997 U.S.-Russia Defense Consultative Group. In November 1997, the Russians agreed to respond within 30 days (4 December 1997) to a U.S. draft agreement.

There have been two main objectives in our military-technical relationship with Russia. One involves work on ballistic and theater missile defense (BMD/TMD). Ongoing projects such as the Russian American Observation Satellites (RAMOS), Active Plasma Experiment (APEX), and the Express/T-160 Hall Effects have necessitated the exchange of technical information and U.S.-Russian cooperation in the development of these programs. If funded beyond FY 1998, RAMOS has the potential to be the first collaborative research and development project between the U.S. and Russia. The U.S. has invested \$22 million thus far and programmed \$13 million in FY 1998 for joint requirements.

The second objective of our military-technical relationship involves non-BMD/TMD technical work. We are pursuing cooperative projects involving K-36 ejection seat technology (USAF), modifications to the Russian MA-31 Supersonic Sea Skimming Target Vehicle (USN), castings for affordable fighter structures (USAF), and titanium nitride (TiN) engine blades (USN). Concerning the K-36 program, the U.S. Air Force is working through a U.S. and Russian company to develop and test a prototype ejection seat based on Russian technology for use in the Joint Strike Fighter.

The remaining technical programs fall under OSD’s Foreign Cooperative Test (FCT) program, which is designed to identify, test, and evaluate foreign non-developmental items as potential alternatives to development and purchase of domestic defense articles. The FCT program with Russia totaled \$13.8 million FY 1992-97, expending \$540,000 in FY 1997 for the latter two projects listed above. As with the K-36 ejection seat and the MA-31 Sea Skimmer, FCT programs can eventually lead to broader cooperation.

The majority of U.S.-NIS military-technical cooperative projects have been U.S.-Russian. The Services, including the Air Force, Army, and Navy have been successful in design studies, contracts for basic research with Russian laboratories, and exchange of scientists. Together the Services spent over \$3.4 million in FY 1997 on cooperative programs with Russian laboratories.

Ukraine

The Ukrainian government has recently expressed an interest in military-technical cooperative programs with the U.S. During a February 1996 visit to the Pentagon, President Kuchma raised the topic of joint weapons research, development, and production efforts. With the size and sophisticated level of development of the military industrial complex Ukraine inherited from the former Soviet Union, the potential exists for a cooperative armaments relationship with Ukraine.

Three projects were proposed to Ukraine during the November, 1996, meeting of the Gore-Kuchma S&T Committee. These included promising material developments of exactly soluble models for quantum wires; welding technologies; and pyroelectric IR-radiation sensors. Each side has identified scientists for these projects and exchanged letters of invitation. The U.S. and Ukrainian scientists working on welding technologies met in fall 1997 in Ukraine.

The same preliminary task is required to establish ground rules for cooperation with Ukraine as it does Russia; completing the Cooperative Agreement allowing for the exchange of technical information between governments. To date, the Ukrainian Ministry of Defense has staffed the agreement with all appropriate agencies and it is expected to be completed early next year.

U.S. DEPARTMENT OF DEFENSE AND U.S. DEPARTMENT OF STATE - WARSAW INITIATIVE/ PARTNERSHIP FOR PEACE

Overview: Initiated in 1994 by President Clinton, the Warsaw Initiative aims to "help America's new democratic partners work with the U.S. to advance the Partnership for Peace (PFP) goals." Both the Department of State and the Department of Defense provide support under the Warsaw Initiative to facilitate participation in PFP exercises, conferences, seminars, and other events, as well as provide partners with equipment and training to improve interoperability with NATO and its Allies.

U.S. Department of State - Warsaw Initiative: The State Department provides Foreign Military Financing (FMF) funds through the Department of Defense to PFP partners for acquisition of U.S. defense articles, services and training. Nineteen ninety-seven marked the first year in which eight NIS countries, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Uzbekistan, and Ukraine, became eligible to receive FMF under the PFP program. The Department of State provided a total of \$12.8 million to the NIS, which includes both FY 1996 and FY 1997 funds, and will provide an estimated \$12.95 million in FY 1998. Despite initial hurdles, the NIS are beginning to implement their respective PFP programs.

In 1997, FMF funds have been used to conduct communications equipment surveys in eight countries—Moldova, Georgia, Ukraine, Turkmenistan, Kazakhstan, Uzbekistan, Kyrgyzstan and Russia—to enhance basic communications capabilities by assisting them in finalizing their communication equipment requirements. Ukraine, for example, has sent the U.S. Embassy a request for communications equipment valued at \$3M while Russia's purchase request is due imminently.

Broadly speaking, FMF funds are being used to purchase English language training equipment and publications, medical equipment, night vision devices, computers and specialized training to include medical, English language and NCO developmental programs.

U.S. Department of Defense - Warsaw Initiative: The DoD Warsaw Initiative is designed to further Newly Independent States' (NIS) participation in Partnership for Peace (PFP) activities and events. The program funds Partner countries' participation in PFP exercises and DoD interoperability programs (a series of informational exchanges or studies programs to help PFP Partner countries reform their militaries and develop a closer relationship with NATO). All twelve NIS countries are eligible to participate in the Warsaw Initiative.

In FY 1996 and FY 1997, \$10 million in DoD Warsaw Initiative funds were obligated for PFP exercise activities for the NIS region. There was very minimum spending on DoD interoperability activities, since programs were being jump-started. The Warsaw Initiative program in the NIS was a major success in FY 1997. Highlights include the following:

- In June, Ukraine, Moldova and other NIS countries participated in a political-military workshop hosted by the U.S. Atlantic Command called "Eloquent Nugget 97".
- In July, Ukraine planned and hosted a peacekeeping and humanitarian exercise with its neighbors called "Cooperative Neighbor 1997".
- In September, the first ever "in the spirit of PFP" peacekeeping exercise in Central Asia involving Kazakhstan, Kyrgyzstan, and Uzbekistan contingents which make up the Central Asian Peacekeeping Battalion (CENTRASBAT) took place in Kazakhstan.
- During the year, a number of NIS countries also participated in key DoD interoperability programs funded under Warsaw Initiative such as Russia's participation in the U.S.-Russia general officers exchange program.

INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET):

The State Department's IMET Program is designed, among other things, to foster greater respect for and understanding of the principle of civilian control of the military, contribute to responsible defense resource management, improve military justice systems and procedures in accordance with internationally recognized human rights. The IMET Program, which is administered through DoD, compliments other PFP activities by providing a wide range of specialized training in the United States for military officials and select civilian officials. One of its most important elements is English language training for the military officers of each NIS state. In FY 1997, the Department of State provided approximately \$3.9 million in IMET funding to the NIS and anticipates increasing this to \$4.65 million in FY 1998.

U.S. DEPARTMENT OF STATE - SCIENCE CENTERS

The Science Centers nonproliferation program is implemented through two intergovernmental organizations: the International Science and Technology Center (ISTC) in Moscow, which was established by agreement in November 1992, and the Science and Technology Center in Ukraine (STCU), which was established by agreement in October 1994. The program's primary objective is to provide peaceful research opportunities to weapons scientists and engineers in the NIS, especially those with expertise in weapons of mass destruction (nuclear, biological, and chemical) and delivery systems.

Although the end of the Cold War reduced the threat to international security posed by possible superpower confrontation, the break-up of the Soviet Union led to severe economic and social destabilization in the elite research institutes devoted to the development of weapons of mass destruction (WMD) and their delivery systems. The proliferation of these technologies represents one of the most serious threats to international peace and stability faced by the international community today. To deter potential proliferation, the Governments of the United States, Canada, Sweden, Japan, Russia, Ukraine and the European Union established the ISTC and STCU to assist these institutes in adapting to the post-Cold War environment. In the NIS, Armenia, Belarus, Georgia, Kazakhstan and Kyrgyzstan are members of the Science Centers. In 1997, Norway acceded to the ISTC Agreement, and the Republic of Korea also began formal ISTC accession procedures, which should be complete in early 1998. Uzbekistan has begun formal STCU accession procedures, which should be complete in early 1998. The Science Centers have the following objectives:

- to provide NIS weapons scientists the opportunity to redirect their talents to peaceful activities;
- to support basic and applied research and technology development;
- to contribute to the transition to market-based economies;
- to help integrate NIS scientists and engineers into the global scientific community; and
- to contribute to solving national and international technical problems

Partnership in Research and Development with Scientific Institutions in the NIS: The Partners Program is designed to further Science Center objectives by expanding opportunities for private industry, foundations, academic and scientific institutions, and other intergovernmental or non-governmental organizations to participate in ISTC and STCU activities. Such expanded participation enhances the Centers' ability to support the transition to market economies and redirect industrial-technical potential from military to peaceful endeavors. Use of the Science Centers as a vehicle for developing partnerships offers unique advantages to private industry and other interested organizations:

- NIS research institutes employ some of the best scientists and engineers in the world, many of whom are engaged in research projects with rich commercial potential;
- Potential investors need help in identifying these scientists and centers of excellence in research;
- The Centers process direct, tax-free, payment of grants to participating NIS scientists and have access to project facilities for international auditing and technical monitoring;
- Legally binding project agreements stipulating rights and responsibilities of all parties;
- Official host country concurrence for all Center projects ensures support from government agencies;
- Centers' in-country infrastructure facilitates smooth operation challenging environment; and
- Partner-funded projects receive expedited review and approval process;

Current Partners: Partners have already begun funding Science Center projects in a range of science and technology fields with a total value of over \$1.5 million. Participating companies include: 3M, Burlington Bio-Medical and Scientific Corporation, Dow Chemical Corporation, Dupont de Nemours, General Atomics, Hitachi Chemical Company, Ltd., Marubeni Corporation, Rhône-Poulenc Industrialization, Sandia National Laboratories, Scientific Utilization, Inc., Swiss Agency for Development and Cooperation, the U.S. Department of Energy, the U.S. National Academy of Sciences, European Organization for Nuclear Research Framatome

International Science and Technology Center (ISTC)

Overview: Since beginning operation in March 1994, the ISTC has provided \$155 million to fund nearly 500 projects employing over 17,000 scientists and engineers at more than 280 institutes in the CIS. Institutes also contribute to projects with in-kind provision of personnel and facilities and payment of payroll tax and other overhead. These projects cover a broad range of science and technology areas, many of which address problems of global importance such as: radiation monitoring of the environment, improved safety for nuclear reactors, improved methods of nuclear waste management, vaccines for bacterial and viral diseases, treatment of heart disease, cancer and other illness, improvements in civil aviation, and improved concepts for future energy production.

Funding/Support: New sources of funding are being sought for the ISTC, particularly from the private sector. In 1997, the European Union, Japan, Norway, and the United States, contributed over \$33 million to 159 projects. With the inclusion of this funding, through 1997, the ISTC has contributed over \$155 million to nonproliferation science and technology programs since 1994. The Secretariat staff, which at the close of 1997 is approaching 100 people representing 10 nations. The Secretariat has also established a state-of-the-art database system for coordinating the nearly 1,500 projects processed at the Secretariat, and is using electronic media (mail and Internet web page) for communicating to ISTC constituents.

Proposals: The ISTC Secretariat receives approximately 40 proposals for new projects each month from scientists and engineers working throughout the countries of the NIS. Each project submitted for ISTC consideration is accompanied by the written concurrence of the state(s) in which the work is to be carried out. When received, project proposals are assigned to ISTC Senior Project Managers who work with the project leaders to ensure that the proposals meet ISTC guidelines. If the project is selected for funding, the Senior Project Manager will continue to monitor the project through to its completion.

Awards: Completed proposals are forwarded to the ISTC Parties for funding consideration. Funding decisions are made 3-4 times per year during meetings of the ISTC Governing Board. Individual projects are funded either entirely by one Party or by a combination of interested Parties. The Parties make their funding decisions based on a combination of factors including technical merit, relevance to ISTC objectives and budgetary priorities. In 1997, the Governing Board met three times and approved over \$33 million dollars worth of new project funding.

Project Monitoring and Auditing: Projects selected for funding are subject to a binding project agreement signed by the funding party(-ies) and the project leader. Based on this agreement, funds and equipment are provided directly to the project leaders and participants so that work can commence. While work is in progress, ISTC Senior Project Managers carry out both regular and periodic monitoring activities that include visits to the project site and consultation during scientific meetings. Also annual financial audits of each funded project are carried out by either ISTC auditors or auditors appointed by the financing party(-ies). In 1997, more than 200 technical monitoring trips were conducted and over 120 projects were subject to financial audits.

ISTC 1997 Financial Summary

Center Administrative Expenses	\$1,794,000
Project-Related Activities	
Seminar Program	\$100,000
Business Management Training Program	\$26,000
Patent Support Program	\$27,000
Project Development	\$39,000
1997 Project-Related Activities	\$186,000
Project Funding	
1997 Total Project Funding	\$33,330,000

*For a detailed accounting of actual expenditures for FY 1997, please refer to the Auditor's Statement in the ISTC 1997 Annual Report Supplement

Seminar Program: The ISTC Seminar Program began in 1994 to promote exchange and collaboration on a wide range of research fields between former weapons developers in the CIS and their counterparts around the world. The ISTC has organized 12 seminars since 1994, three of which were held in Russia in 1997.

Business Management Training (BMT) Program: As more ISTC-funded projects reach their final stages, it is apparent that much of the technology developed has substantial commercial applications and can contribute to the NIS transition to market economies. The ISTC established the Business Management Training Program (BMT) in March 1997 to assist former weapons scientists in promoting the results of their ISTC work in international technology markets. The program consists of training courses ranging in duration from two days to two weeks on basic business planning and management principles and intellectual property rights. Each course is offered to between 15 and 30 participants at different locations where ISTC projects are under way. In 1997, five highly successful BMT courses were held and more are planned for 1998.

Project Development Grants Program: The goal of this program is to assist NIS weapons specialists seek foreign collaborators for their research projects. Applicants through the ISTC are granted funds to attend international conferences and/or visit foreign institutes and laboratories to present their project proposals and research plans. Recipients of project development grants often have a better chance of receiving ITSC funding for their proposals as a result of this type of collaboration and feedback.

Promising Research Abstracts Database: In mid-1997, the ISTC began to compile a database of promising research that is currently under way in scientific institutes throughout the NIS. The purpose of the database is to provide a broad overview of unique research and its potential applications to a wide audience among private companies, universities, research institutes and government agencies in the NIS and around the world. The database will help integrate NIS weapons specialists into the global scientific community and assist in the transition to market economies by promoting unique research activities with commercial applications to potential investors. Thousands of abstracts have been collected and are being reviewed by the Secretariat for quality and consistency. The Promising Research Abstracts Database program is funded by the Government of Japan and is planned for release to the public in 1998.

Patent Support Program: The ISTC launched the Patent Support Program (PSP) in March 1997 to provide financial support to project grant recipients to cover the costs for the initial stages of obtaining patents for their work. The long-term goal is to facilitate national and international patenting for inventions developed by ISTC project grantees. In 1997, 15 ISTC projects encompassing 23 separate inventions received patenting support from the Secretariat.

Science and Technology Center in Ukraine (STCU)

Overview: The Science and Technology Center in Ukraine was established in late 1995, under terms of an international agreement among the United States, Canada, Sweden and Ukraine. In FY 1997, the STCU completed its second complete year of operation, and its first year with a full complement of staff and a fully equipped headquarters building in downtown Kiev. The STCU also established three small branch offices in the major Ukrainian research complexes in Kharkiv, Dnipropetrovsk and Lviv to address and engage a wider range of the former Soviet weapons research establishment. By the end of FY 1997, the STCU had funded 122

projects across Ukraine, valued at \$14.3 million and employing over 2,200 former Soviet weapon scientists, as well as substantial numbers of other technical and support personnel. The STCU also began implementation of activities similar to those described for the ISTC above, including a crucial Partner Program that will bring in additional funding from the private sector and other alternative sources and allow long-term self-sustainability for the STCU.

The STCU's success is now leading to an expansion of its membership. Initially, both the European Union and Japan, who are charter members of the ISTC in Moscow, declined to participate in the STCU initiative. By FY 1997, however, both countries have expressed satisfaction with the Ukraine Science Center and have announced their intention to participate and accede to the Agreement. The European Union will complete formal accession procedures in FY 1998, and the Japan is seeking to fund individual STCU projects in Ukraine.

CIVILIAN RESEARCH AND DEVELOPMENT FOUNDATION (CRDF)

The mission of the Civilian Research and Development Foundation (CRDF) is to fund civilian basic and applied research conducted in the countries of the former Soviet Union, to redirect efforts of former defense scientists for peaceful purposes, and to promote development of market economics. CRDF is a private, non-profit and charitable organization, established in August 1995 by the National Science Foundation with an initial DoD-CTR grant of \$5 million, matched by a \$5 million gift from Mr. George Soros. The USG funding source shifted to the Department of State under the FREEDOM Support Act in FY 1996.

The CRDF received \$4.1 million in FY 1997, including \$2 million from the Department of Defense, \$962,000 from the National Oceanic and Atmospheric Administration, \$462,000 from the National Science Foundation, \$500,000 from the Department of State/USAID and \$200,000 from the National Institutes of Health (NIH). A competition in the Biomedical and Behavioral Sciences supported in part by NIH resulted in 42 awards in four countries (Russia, Ukraine, Kazakhstan and Georgia).

Total funding received through FY 1997 from all sources is \$20.1 million, including \$2.4 million from participating NIS countries and \$230,000 from American industry. With the exception of \$1 million, these funds have been used to award nearly 500 grants, involving about 1,600 NIS scientists and more than 300 Americans. Former weapons scientists agree to perform only civilian work while receiving support from the CRDF. The remaining \$1 million is supporting the newest CRDF activity, the **"Next Steps to the Market"** program, which helps CRDF awardees and their American company partners to advance the potential for marketplace applications of their previous research. CRDF provided technical assistance to officials from several NIS countries.

Country Highlights

Armenia: With support from the Department of State and USAID, CRDF is funding five industry-oriented research projects and developing an in-country capacity for funding science on a competitive merit basis. CRDF's sponsorship of a joint competition in applied chemical and biological sciences with the newly established National Foundation for Advanced Science and Technology (NFAST) includes program management training, office equipment and other material support for NFAST.

Belarus: In response to U.S. Government policy, CRDF suspended any new awards in Belarus.

Kazakhstan: CRDF is providing technical assistance and support for refinement of biomedical and behavioral science proposals from scientists from the former biological weapons facility at Stepnogorsk. These proposals will later compete for funding.

Russia: The CRDF assisted the National Marine Fisheries Service (NMFS) of the Department of Commerce with refitting a Russian research vessel for a collaborative research project on managing pollock fish stocks, which are of vital interest to the U.S.. In response to the National Science Foundation and the Russian Foundation for Basic Research, CRDF administered a special program enabling young investigators to participate in cooperative research projects already funded by CRDF.

Ukraine: The Coordinator's Office and the American Embassy in Kiev assisted in negotiating removal of an obstacle which arose in December 1996 when it appeared that CRDF awards would be taxed as income. With the resolution of this problem in July, awarding grants to scientist in Ukraine went forward.

Uzbekistan: The CRDF agreed to support a workshop on Technology Management in the spring of 1998 with a focus on technology commercialization.

NONPROLIFERATION AND DISARMAMENT FUND (NDF) - EXPORT CONTROL ASSISTANCE

Helping the NIS develop effective export control systems and capabilities is a critical element of U.S. Government efforts to prevent, deter or detect potential proliferation of weapons of mass destruction and weapons materials. The objective of U.S. export control assistance is to help build export control institutions, infrastructure, and legislation in the NIS to help prevent weapons proliferation. Initially under the DoD Cooperative Threat Reduction (CTR) program, through FY 1995 the U.S. Government provided approximately \$39 million in export control assistance to Russia, Ukraine, Kazakhstan and Belarus with the Departments of Commerce, Energy, State and Treasury (Customs Service) as the primary implementing agencies. In FY 1996, funding responsibility for export control assistance shifted to the Department of State under the Nonproliferation and Disarmament Fund (NDF).

The NDF's FY 1997 appropriation of \$15 million was authorized for nonproliferation activities worldwide, and included \$5 million for export control activities. From these funds, in 1997, the NDF approved 11 projects in the area of export control assistance to the NIS totaling \$3.4 million. NDF-NIS export control activities included the following:

- Funding to tailor Tracker automated export licensing software for use by licensing officials in Ukraine, Kazakhstan, Russia, and Belarus.
- Purchase of two X-ray vans to improve Kazakhstan's border enforcement capabilities.
- Conduct an assessment of the capabilities of the Government of Azerbaijan to control the export of strategic goods and materials.
- Training on industry/government relations and export licensing procedures for Ukraine, Russia, Kazakhstan, as well as the establishment of an effective legal basis for controlling exports for Georgia.

Future export control assistance under the Non proliferation, Antiterrorism, Demining and Related (NADR) Account will focus increasingly on the Southern Tier states. While these states are not significant producers of weapons of mass destruction, they are the most likely transit routes for the smuggling of WMD or nuclear materials to potential proliferants.

COUNTRY HIGHLIGHTS:

Kazakhstan: The U.S. is purchasing two X-ray vans to help improve Kazakhstan's border enforcement capabilities. In addition, funding was approved to tailor the Tracker automated export licensing system to meet the needs of Kazakhstani export licensing officials. U.S. officials also plan to help the Government of Kazakhstan organize an industry/government relations conference to educate exporters about Kazakhstan's Export laws and procedures.

Russia: Limited assistance was provided to the Center on Export Controls, a Russian NGO located in Moscow, to provide export compliance training to Russian industrialists and to establish an internet site containing regulatory information for Russian exporters. Funding was approved to tailor the Tracker automated export licensing system to meet the needs of the Russian export licensing officials.

Ukraine: In 1997, the U.S. provided legal assistance to Ukrainian parliamentarians who were drafting an export control law. Funding was approved to tailor the Tracker automated export licensing system to meet the needs of the Ukrainian export licensing agency, rather than custom-designing software. This enabled remaining CTR funds to purchase additional automation equipment for Ukrainian Customs.

U.S. DEPARTMENT OF ENERGY - MATERIALS PROTECTION, CONTROL AND ACCOUNTING (MPC&A)

Overview: Since 1993, the United States, Russia, the Newly Independent States, and the Baltic states have been engaged in a partnership to prevent the theft or loss of nuclear material. This joint effort to improve nuclear material protection, control and accounting (MPC&A) directly addresses a key threat to the security of the entire global community. MPC&A improvements which are designed to keep nuclear materials secured in the facilities that are authorized to contain them, are the first line of defense against nuclear smuggling that could lead to nuclear proliferation or nuclear terrorism. In order to rapidly improve the security of nuclear materials that are directly usable in nuclear weapons, DOE, through the MPC&A program is providing nuclear facilities in Russia, the NIS and the Baltic states with modern safeguards equipment including:

- radiation monitors for pedestrian and vehicular traffic which will detect and deter attempts to remove nuclear material and modern access control devices for areas containing nuclear material;
- alarm stations and computers to process data coming from sensors installed inside facilities and around their perimeters; and
- tamper-indicating devices to prevent unauthorized removal of nuclear material and NDA equipment to conduct material inventories.

DOE is cooperating at over 50 locations in eight countries to implement comprehensive MPC&A upgrades to protect hundreds of tons of weapons-usable nuclear material not contained in weapons. MPC&A activities were managed and executed by the Department of Energy from FY 1993 to FY 1995, with a total of \$78.5 million from the DoD Cooperative Threat Reduction (CTR) program. In addition, DOE initiated a direct \$2 million program to support MPC&A activities. These efforts have grown significantly over the past five years. Beginning in FY 1996, recognizing the high priority of assistance in this area, Congress provided DOE a direct appropriation of \$70 million for MPC&A activities. In addition, DOE received an additional \$15 million in FY 1996 CTR funds for MPC&A. FY 1997 funds appropriated were \$112 million and funding was increased in FY 1998 to 137 million.

As of the end of FY 1997, there were a number of highlights of MPC&A activities in Russia and the other NIS:

Russia

- **Implementation of a Program to Upgrade the Security of Rail Transportation of Nuclear Materials in Russia:** This project is a joint effort involving MinAtom and its institutes and enterprises, the Ministry of Interior, the Ministry of Railways and the Ministry of Emergency Situations.
- **Major MPC&A Upgrades at Obninsk:** MPC&A system at Obninsk Critical Assembly have been significantly upgraded, improving the security of tons of weapons-usable nuclear material.
- **Large-Scale Deployment of Portal Monitors throughout Russia:** By March 1997, the MPC&A program had delivered to Russia 75 pedestrian (walk through) radiation monitors (with an additional 56 on order), 59 handheld radiation monitors (with an additional 69 on order), and 7 vehicle radiation monitors (with an additional 48 on order). These types of monitors, which have only rarely been used in the past in Russia, represent a major improvement in the security of many tens of tons of nuclear material.
- **Completion of Portal Monitors Installation on All Pedestrian Entry /Exit Points at Tomsk-7:** At the Siberian Chemical Combine in Severs (Tomsk-7), Russia, one of the largest nuclear facilities in the world, with many tens of tons of highly enriched uranium and plutonium, the entire complex has now been equipped with special radiation detectors and metal detectors to monitor all personnel entering and leaving the nuclear facilities. This equipment provides greatly improved capabilities to detect attempted thefts of nuclear material from these facilities.
- **Major MPC&A Upgrades Initiated at Chelyabinsk-70 Pulsed Reactor Facility:** The MPC&A upgrades completed at this facility include hardened doors, stronger double locks, intrusion detection sensors and metal barriers.
- **Major MPC&A Upgrades Completed at Arzamas-16 Research Facility:** In March 1997, major MPC&A upgrades were completed and demonstrated at one of several nuclear facilities at Arzamas-16. The facility, known as the "research site" contains hundreds of kilograms of highly enriched uranium and plutonium used for nuclear physics research.

- **Major MPC&A Upgrades Initiated with Russian Navy and Icebreaker Fleet:** Contracts were signed and MPC&A upgrade work has now been started with the Russian Navy and with the Russian nuclear icebreaker fleet. The Navy project is currently focused on installing MPC&A upgrades at a large naval nuclear fuel storage facility near Murmansk. The icebreaker project is upgrading the security of nuclear fuel activities conducted by the Murmansk Shipping Company.
- **Major MPC&A Upgrades Completed at Kurchatov Institute's Central Storage Facility:** In November 1996, major MPC&A upgrades were completed and demonstrated at the Kurchatov Institute's Central Storage Facility in Moscow, the largest single nuclear facility at that institute, containing tons of nuclear material.
- **MPC&A Training:** By the end of the first half of FY 1997, more than 2,000 NIS nuclear specialists had participated in MPC&A training courses and technical exchanges under the auspices of the MPC&A program. A major focus of the MPC&A training effort was the creation of the Russian Methodology and Training Center at Obninsk, which has been established, with support from DOE's MPC&A program and the European Union.
- **Expansion of Cooperation with GosAtomNadzor (GAN, Russia's Nuclear Regulatory Agency):** In FY 1997, cooperation has been successful in the area of regulatory infrastructure development and four new nuclear MPC&A regulations have been drafted and are ready to be forwarded to the Russian legislature. Additionally, work has been initiated on a pilot Federal Materials Control and Accounting (MC&A) information system and MPC&A training courses have been held for GAN inspectors.

Belarus

- **Major MPC&A Upgrades Completed in Sosny:** MPC&A upgrades were completed in October 1996 at the Institute of Nuclear Power Engineering in Sosny (near Minsk).

Kazakhstan

- **Upgrades in Kazakhstan:** All major MPC&A equipment delivered to the Ulba Fuel Fabrication Plant, Comprehensive Physical Protection Plans agreed to for BN-350 and Alatau reactors, physical protection equipment delivered for Semipalatinsk research reactors, material accounting equipment delivered to Alatau research reactor and intra-site communication system operation at Semipalatinsk.

Ukraine

- **Upgrades in Ukraine:** New MPC&A system commissioned at the Kiev Institute of Nuclear Research: installation of a modular vault for nuclear material storage at the Sevastopol Institute of Nuclear Energy and Industry; and initiation of physical protection upgrades at the Kharkiv Institute of Physics and Technology.

Uzbekistan

- **Major MPC&A Upgrades Completed in Tashkent:** MPC&A upgrades were completed in October 1996 at the Institute of Nuclear Physics in Tashkent.

U.S. DEPARTMENT OF ENERGY - FISSILE MATERIALS DISPOSITION PROGRAM

The DOE Fissile Materials Disposition (MD) program has both a U.S. and a Russian component. The current focus of both efforts is disposition of weapons-derived plutonium that is no longer required for defense purposes. In the United States, DOE is implementing a dual-track plutonium disposition strategy involving (1) burning of surplus plutonium as mixed oxide (MOX) fuel in existing domestic commercial reactors and (2) immobilization of surplus weapons plutonium in ceramic material. The program's work with Russia is aimed at attaining reciprocal Russian strategies, actions and outcomes for the disposition of Russia's excess plutonium.

From FY 1995 through FY 1996, the MD program spent approximately \$3.9 million for activities related to plutonium disposition in Russia. This resulted in a Joint U.S.-Russian Study on Plutonium Disposition and led to contract negotiations for further plutonium disposition activities. Beginning in FY 1997, the Congress provided the MD program with a direct appropriation of \$10 million for a series of U.S.-Russian small-scale tests and demonstrations of plutonium disposition technologies. Major FY 1997 tests and demonstrations involved the following projects.

Fabrication of VVER-1000 MOX Fuel: The purpose is to assist and encourage Russia to (1) develop a MOX fuel fabrication process that is compatible with surplus weapons-grade plutonium, (2) test the resulting fuel, and (3) qualify it for use in a VVER-1000 water reactor. Final fabrication and use of the fuel is subject to approval by GosAtomNadzor, Russia's nuclear regulatory authority, which will license the use of MOX. RosEnergoAtom, the Russian utility that operates nuclear power reactors, also is involved in the effort.

Validating the Performance of MOX-Fueled Nuclear Reactors: VVER-1000 water reactors in Russia currently are fueled with uranium. Considerable work is required to ensure that they can be fueled with some mixed plutonium oxide and uranium oxide. The first state is feasibility studies using computers. This joint U.S.-Russian project is aimed at verifying and updating computer codes used to predict the behavior of MOX fuel. Studies for presentation to GosAtomNadzor for licensing approval are under way.

Converting Russian Breeder Reactor to a Plutonium Burner: DOE is helping Russia assess the feasibility of converting Russia's BN-600 reactor, a fast-neutron reactor, into a net burner of plutonium. The BN-600 currently operates a fuel cycle that consumes uranium. Preliminary estimates indicate that the reactor could be modified to burn MOX fuel, perhaps even a full MOX core. DOE-supported Russian design studies, safety analyses, and an economic analysis are currently under way.

Plutonium Conversion Technology: The goal of this project is to select a technology to convert plutonium weapons components from dismantled nuclear warheads into an oxide form that is suitable for temporary storage, international inspection, and disposition. Once this "front-end" process has been completed, the material can be used to produce MOX fuel to be burned in a nuclear reactor that generates electricity. DOE, working with Los Alamos National Laboratory, is studying plutonium conversion technology as part of its own disposition plan. Los Alamos also is leading a concurrent effort with Russia on plutonium conversion. Work currently is under way to develop a master plan for the joint plutonium conversion and disposition project. Also, tests and analyses have been initiated that will lead to the design and development of a nondestructive assay system for the oxide produced. This is an essential safeguards step.

Developing Immobilization: As part of its hybrid approach to plutonium disposition, DOE is studying several immobilization processes. Russia's initial position was that, though it had developed immobilization technologies, all Russian plutonium could be used for fuel; none would have to be immobilized. Through extensive work between U.S. experts, principally from Lawrence Livermore National Laboratory, and Russian experts, Russia has determined that some Russian plutonium in fact must be immobilized. Small-scale projects with Russia also are under way to explore appropriate technologies.

U.S.-Russian-Canadian Project to Burn Mixed Oxide (MOX) Fuel in a Canadian Nuclear Reactor: The purpose of the project is to examine the technical feasibility of burning weapons plutonium in existing Canadian Deuterium Uranium (CANDU) reactors. These reactors, which now operate on natural uranium fuel, have a design that may allow them to operate with a partial MOX core with relatively few changes. The scope of the project involves fabrication, irradiation, and post-irradiation examination of a small number of MOX fuel rods over 18 months. Los Alamos National Laboratory has fabricated a few fuel pellets for use in the demonstration. Russia's A.A. Bochvar All-Russian Scientific Research Institute is expected to fabricate a similar number of pellets to be used along with the U.S. ones. The test irradiation and post-irradiation examinations would be conducted at the Chalk River reactor facility in Canada. This trilateral effort will permit evaluation of such technical issues as possible differences between U.S. and Russian MOX fuel performances. These and related tests and demonstration projects will continue in FY 1998 at the \$10 million level.

Over the next five to seven years, subject to Congressional approval of funding, the U.S. Government hopes to provide between \$40 million and \$80 million to assist Russia's disposition program. Most of this funding would go toward the construction of a pilot-scale facility in Russia to convert the plutonium metal removed from nuclear warheads into plutonium oxide. Once in this form, the plutonium would be suitable for international inspection and could either be used in MOX fuel or be immobilized in ceramic or glass. U.S. support for the construction of the

pilot-scale facility in Russia will require satisfactory conclusion of several technical and policy agreements to be negotiated between now and 2000.

U.S. DEPARTMENT OF ENERGY - JOINT U.S.-RUSSIAN REDUCED ENRICHMENT FOR RESEARCH AND TEST REACTORS (RERTR)

The objective of the Joint U.S.-Russian Reduced Enrichment for Research and Test Reactors (RERTR) program is the further reduction of the international commerce in highly-enriched uranium through the conversion of Soviet-designed research and test reactors from high-enriched uranium (HEU) to low-enriched uranium (LEU) fuel. In 1995, the United States (Argonne National Laboratory) and Russia (the Research and Development Institute of Power Engineering, RDIPE) signed an agreement to cooperate on a program to develop LEU fuel enabling Russian-designed research and test reactors, both within and outside of Russia, to convert from the use of HEU fuel to LEU fuel. A new contract, containing language regarding intellectual property rights, was signed between ANL and Russian labs in June 1996. The United States is providing \$450,000 in funding for the first full year under the contract. Russia will provide approximately \$3 million for the same period. The work is projected to take place over a period of at least five years.

In 1996, the United States provided \$450,000 in funding from the State Department's Nonproliferation and Disarmament Fund for the first full year under the contract. This has been used for payments directly to Russian institutes for deliverables named in the contract.

In FY 1997, work continued on the tasks covered by the first year of the contract. Negotiations on the second year contract began in 1997 with a planned funding level of \$520,000 from the United States. Funding from the Russian Ministry of Atomic Energy to Russian institutes participating in RERTR work continued, but the amount has not been determined.

All costs for U.S. work under the joint U.S.-Russian RERTR program are included in the funding from the Department of Energy (DOE) to Argonne National laboratory support for the global RERTR program. Argonne National laboratory support for the joint U.S.-Russian RERTR program was approximately \$1.5 million dollars for FY 1997.

U.S. DEPARTMENT OF ENERGY - EXPORT CONTROL ASSISTANCE

The Department of Energy (DOE) continues to implement its comprehensive export control program for Russia and the NIS. DOE has seen considerable success in its program, including the establishment of nine laboratory-to-laboratory arrangements between DOE national laboratories and their counterpart organizations in Russia, Kazakhstan, and Ukraine. The DOE program to improve nuclear export controls in Russia and the NIS has given the highest priority to those countries with the greatest potential as suppliers of sensitive equipment, materials, and technology. This has meant that Russia, Ukraine, and Kazakhstan have been at the forefront of DOE attentions thus far in the implementation of its assistance efforts. DOE recognizes that other countries previously in the sphere of influence of the former Soviet Union have special needs in the area of nuclear export controls. In response, DOE has allocated a small percentage of its FY 1997 budget for assistance to this region; however, there are plans to give greater attention to these countries in FY 1998.

Since the implementation of the NIS Export Control Program in 1996, DOE has developed effective relationships with its governmental counterparts in the NIS. As a result of successful bilateral meetings, DOE's strategy has focused on two tracks, government-to-government and laboratory-to-laboratory arrangements. Recently, a third approach, multilateral cooperation among donor states, was added to optimize limited funding and to take advantage of activities best done in a multilateral setting.

The Department of Energy also implements a Graduate Student Facilitators Program that places graduate students at entities in Russia and the NIS to facilitate the work between the host country and the United States. Students successfully completed assignments at the Russian Center for Export Control and the Kazakhstani Atomic Energy Agency.

In FY 1997, the Department of Energy was allocated \$3 million to implement their export control assistance program in the NIS. DOE initiatives target areas that have not been fully addressed by CTR or state projects, or where DOE brings unique skills to bear on an issue or problem. DOE activities included the following:

- Providing technical assistance for nuclear and nuclear-related license reviews;
- Conducting workshops to educate government and industry officials in nuclear nonproliferation and multilateral nuclear export controls; and
- Conducting training programs to educate government officials in nuclear licensing.

Additionally, DOE provides the technical core course for U.S. Customs border enforcement training funded through the Departments of State and Defense. The Customs training teaches foreign customs officers to recognize and identify nuclear export-controlled commodities. Projected funding for the DOE export control assistance program FY 1998 is \$3.2M.

COUNTRY HIGHLIGHTS

Kazakhstan: Export control workshops were held in January and September 1997. The National Nuclear Center also identified a core technical team to support the Kazakhstan Atomic Energy Agency on export controls. As part of the technical cooperation agreement with Kazakhstan, the Center prepared a paper on its view of the global proliferation problem and the Center is in the process of identifying indigenous suppliers of nuclear and nuclear-related dual-use equipment, material and technology.

Russia: Two workshops were held at Obninsk that trained a core group of nuclear experts that in turned trained other experts from 25 Russian institutes. The workshops facilitated the formal involvement of Russian technical experts in export license reviews and prompted dialogue among Russian agencies. Quarterly newsletters on nonproliferation prepared by the Russian Center for Export Control were distributed to government and industry.

Ukraine: A Technical Cooperation Agreement was established between the Institute of Nuclear Research (INR) and Argonne National Laboratory (ANL); the Institute of Nuclear Research and Los Alamos National Laboratory (LANL); and Kharkiv and Pacific Northwest National Laboratory (PNNL). The Institute of Nuclear Research and LANL jointly developed a computer system to support license review. One nuclear export control workshop was held at INR, which included policymakers and technical experts for export control licensing in Ukraine.

U.S. DEPARTMENT OF ENERGY (DOE) - INITIATIVES FOR PROLIFERATION PREVENTION (IPP)

DOE's principal instrument for addressing nonproliferation of NIS weapons of mass destruction (WMD) technology and expertise is its **Initiatives for Proliferation Prevention**, or **IPP Program**. The IPP Program was initiated pursuant to Section 575 of the FY 1994 Foreign Operations Appropriations Act (P.L. 103-87). The primary objective of the IPP Program is to reduce incentives for nuclear and other former Soviet weapons scientists, engineers and technicians to emigrate to countries of proliferation concern by redirecting their expertise to nonmilitary applications of commercial value and mutual benefit to the United States and the NIS. In the long-term, such engagement is intended to stabilize personnel and resources in the NIS that represent a proliferation risk and to develop self-sustaining, economically viable commercial ventures to contribute to the NIS transition to market economies.

The approach of IPP is three-fold. First, the DOE national laboratories work with the NIS institutes to identify and evaluate the commercial potential of research and development at NIS institutes. Second, approved partnerships are cost-shared by U.S. industry. Finally, the objective is commercialization. The program leverages NIS intellectual capital, provides seed money to high-risk research and development activities, and generates private sector investment opportunities to commercialize new technologies.

The **United States Industry Coalition (USIC)**, funded by IPP under a financial assistance agreement with the University of New Mexico, is a group of over 60 U.S. companies and universities, who pay modest membership fees, and in return receive information about and can participate in IPP cost-shared projects.

Project Status: To date, over 376 projects have been initiated - 85 percent with institutes in the Russian Federation - including over 77 industry cost-shared projects. Of the latter projects, DOE's investments have been matched at approximately a proportion of \$2 of private sector contribution for each \$1 of DOE contribution. Projects have engaged over 3,500 weapons scientists and engineers on projects ranging from materials science, to biotechnology, to instrumentation, to medical isotopes, and so on. IPP has developed the capability to track these projects from inception, and to monitor progress using project tracking and metrics incorporated in a computer-based information system. The program metrics, monitored on a project-by-project basis, include the benefit to U.S. nonproliferation objectives, commercialization potential, scientific progress, and job creation in the NIS and U.S., as well as other benefits to the U.S. taxpayer.

Funding: IPP was first funded in FY 1994 with \$35 million from the FREEDOM Support Act. These funds carried over into FY 1995 with no new funds appropriated that year. In FY 1996, Congress appropriated \$10 million under the Energy and Water Appropriation for IPP; and the Department of Defense transferred an additional \$10 million in FY 1996 Cooperative Threat Reduction funds for IPP. For FY 1997, IPP received \$30 million under the Energy and Water Appropriation bringing total funds available from FY 1994-97 to support IPP projects to \$85 million. Total obligations through FY 1997 are \$80.8 million. Funds are obligated under fixed priced contracts and expenditures are based on acceptance of project deliverables over the life of the project, often several years. For FY 1998, Congress appropriated \$30 million to continue IPP efforts.

U.S. National Laboratories: All ten DOE multi-program laboratories, and the Kansas City Plant, participate in the IPP Program. In FY 1994-96 IPP funds were allocated primarily to the three Defense Program weapons laboratories — Los Alamos (LANL), Lawrence Livermore National Laboratory (LLNL), and Sandia National Laboratories (SNL). Since then, IPP has also involved strong support from Argonne National Laboratory (ANL), Oak Ridge (ORS), and the remaining DOE multi-program laboratories at Idaho (INEL), Pacific Northwest National Laboratory (PNNL), Brookhaven (BNL), Berkeley (LBNL), and the National Renewable Energy Lab (NREL). The DOE labs have demonstrated that scientific peer relationships have distinct advantages as NIS scientists identify with, and have respect for DOE National Laboratory-based scientists and the core competencies in the NIS institutes are similar to those in the DOE National Laboratories. Additionally, working through the National Laboratories leverages resources the labs receive from other sources on significant technical projects, allowing IPP resources to provide for the NIS sub-contract support.

In practice, the lab-to-lab approach has resulted in an influx of technical information from NIS institutes into DOE National Laboratories, which has stimulated ongoing programs in materials and manufacturing, biomedical and biotechnology, environmental technology, communications and other areas. The value of this technical information, the hardware, software, and experimental data received to date far exceeds the IPP costs incurred.

Beneficiaries, in addition to the National Laboratories, include the Departments of Energy, Commerce, Defense and State which rely on the DOE National Laboratories to support and assist on multi-agency, coordinated projects across a broad range of-related issues.

Program Highlights

Kazakhstan

- **IPP and ISTC Cooperate in Major Project Involving National Nuclear Center of Kazakhstan and Ulba Metallurgical Plant:** This project involves cooperation with the State Department's Science Centers program, aimed at development of commercial end uses and markets for Kazakhstani beryllium, the National Nuclear Center of Kazakhstan and the Ulba Metallurgical Plant. This project involves IPP coordination of development of commercial incentive and contacts to support the \$3 million ISTC-funded project at National Nuclear Center. The ISTC project is aimed at converting Kazakhstan's beryllium capacity to peaceful purposes. Total IPP funding involved is \$300,000. An August 1997 meeting at LANL brought together staff from the Ulba Metallurgical Plant; the ISTC project manager from Moscow; U.S. industry representatives from Brush-Wellman, Nuclear Metals, Pratt & Whitney/United Technologies and Allison Engines; and LANL scientific staff. Agreement was reached on a number of technical tasks to be performed at Ulba, as well as for evaluations and assessments of potential commercial beryllium products by Brush-Wellman and Nuclear Metals. Work will also be done on the epidemiology of beryllium sensitivity of Ulba workers. This was the subject of a protocol signed by ISTC, Ulba, LANL and IPP.
- **Five Kazakhstani IPP Chem-Bio Projects support Multi-agency Stepnogorsk Initiative:** Five Phase I projects were approved for a total of \$1.518 million. Of these funds, \$853,000 will flow to institutes of the National Biotechnology Center of Kazakhstan in support of the Multi-agency Stepnogorsk Initiative to dismantle and redirect the resources of the former Soviet Biological Weapons production facility in Stepnogorsk, Kazakhstan. Other USG agencies have complementary projects such as the DoD Cooperative Threat Reduction program, which will support the elimination or dismantlement of the Stepnogorsk facility. The IPP projects involve cooperation between the Pacific Northwest National Laboratory and Brookhaven National Laboratory and Aytkhozhin's Institute of Molecular Biology and Biotechnology, the Institute of Applied Botany, Institute of Biochemistry and Genetics of Microorganisms, Institute of Physiology, Genetics and Bioengineering of Plants, Institute of Microbiology and Virology, Institute of Plant Biotechnology, and Institute of Radiobiology. Four of these projects are aimed at investigating the laboratory feasibility of routes to four broad classes of biomaterial for potential commercial application, and the fifth project is aimed at software for sequencing the human genome.

Russia

- **Silicon of Siberia Project:** This project involves Sandia National Laboratories (SNL), Krasnoyarsk-26 (K-26) and the Defense Enterprise Fund (DEF). The project goal is to convert a portion of the Russian plutonium infrastructure (in terms of scientific professionals) at K-26 into commercial channels. A \$165 million polycrystalline silicon plant will be built with private financing to produce 1,000 metric tons (MT) of this material at K-26. This will create about 800 jobs (about 10 percent of the work force) at K-26. Polycrystalline silicon is the basic building block worldwide for producing integrated circuits, and a world production shortfall and concomitant strong pricing has been forecast by knowledgeable market consultants for the next five years. (The current long term contract price for polycrystalline silicon is now \$52-56/kg and the annual world market is 15 thousand tons). The K-26 plant is viewed as a third source, behind the Japanese and Germans. Together, these now control 75 and 25 percent (respectively) of the world market. The K-26 plant could help moderate world pricing, satisfy Russian requirements and function as a second or third source for U.S. semiconductor makers. Russia considers this a high priority project, and MinAtom has requested assistance from the DOE/IPP program to create and package this project for financing by the private sector. IPP is working with DEF, which has put up \$500,000 in risk capital for the project. IPP funding for this project is \$1.5 million, of which \$0.25 million has been allocated. IPP will pay for the pilot facility construction, operation and preparation of a business plan. DEF will work with the financial community and western firms to attract private investment to the K-26 production plant.
- **Superplastic Roll Forming for Automotive Components:** This is a Phase II project involving Lawrence Livermore National Laboratory, Chelyabinsk-70, Kaiser Aluminum and Rockwell International. The project

evaluates the development potential of automotive wheels made from two different superplastic aluminum alloys using Russian-developed roll-forming technology. Russian technical advances in material pre-processing and in CAD/CAM constitute important advances in process cost-effectiveness. Benefits are near-net-shape processing and capability to rapidly switch production from one part to another without the need for switching dies. Total project funding to SNL is \$400,000, of which \$130,000 has gone to the All-Russian Institute of Theoretical Physics (VNIITF- Chelyabinsk-70) and \$70,000 has gone to the Institute of Metal Superplasticity Problems. The two U.S. industry partners have put up \$400,000 of in-kind contributions, in terms of value of cooperative work.

- Advanced Recycling of Co-Mingled Metals:** This is a Phase II project involving Oak Ridge National Laboratory, the Association of Centers for Engineering and Automation, the Center for Science Intensive Engineering (both Russia) and RUSTEC (affiliated with Camden Iron and Metal, Inc.). This project is broadly aimed at developing improved technology for the separation of tungsten carbide from other metallic scrap, and more broadly, to develop improved technology for separation of ferrous from nonferrous metal scrap. Benefits are more cost-effective recovery of valuable metal scrap from mixed scrap; and more cost-effective recovery of noble metal values from electronic scrap. Products include machinery and equipment for sale to companies in the metal processing industry and electronic components industry. Total Project funding to ORNL is \$627,000, of which \$378,000 has gone to the Russian institutes involved. Russtec has put up \$654,000 of in-kind contributions, in terms of value of cooperative work.
- Radkowsky Thorium Fuel Cycle:** This activity represents two projects involving Brookhaven National Laboratory, the Russian Research Center - Kurchatov Institute and the Radkowsky Thorium Power Corporation (RTPC), resulting in the design and development of a thorium based fuel for use in VVER and PWR type reactors. The key element in the design is a seed-blanket fuel assembly which is used in place of conventional PWR fuel assemblies requiring relatively little modification to the overall power plant outside of modifications to the core itself. The resultant fuel system offers several significant advantages over existing fuels. The fuel cycle is a "once-through" cycle that requires no reprocessing and remains in the core for about ten years reducing operating costs and the amount of waste produced. The waste product itself contains fewer actinides and is less expensive to handle and store due to reduced heat production. One of the most unique aspects of the project is the fact that reactors using this design cannot contribute to proliferation as they cannot produce any weapons grade material and their waste products cannot be reprocessed or utilized for weapons grade material.

The first project was funded in September, 1995 for \$550,000 while the second, follow-on project for \$600,000 is currently under review. From a commercial standpoint the project is very successful. The industrial partner has had considerable success in attracting private investors based on the success of the past two years of work funded by the IPP program. RTPC has also negotiated deals with potential suppliers to engage in activities and fund work that will lead to using this technology in existing commercial reactors throughout the world. Current partners include Raytheon, MinAtom, Watenfal of Sweden and Nuclear Fuel Industries, Inc. of Japan. RTPC is currently developing relationships and collaborations through the European Bank of Reconstruction and Development, and with Industrias Nucleares de Brazil. The Russian collaborators at Kurchatov are quite pleased with this project as it provides long term employment for some 100 scientists and engineers, most of whom are former naval reactor specialists. Senior levels of the Russian government are even considering developing the theoretical Plutonium burning capabilities for use as one of their Plutonium disposition options.

- Kvant-Sovlux:** This is a collaborative effort in which DOE is funding four projects over two years to support a larger collaboration between Energy Conversion Devices (ECD) and the KVANTplant in Russia. Basically, the goal of these projects is to develop an advanced photo-voltaic plant at the Sovlux facility in Kvant, that is capable of producing flexible and rugged photo-voltaic cells with a higher rate of efficiency than existing cells and utilizes a thin film, vapor deposited amorphous silicon alloy to produce solar cells that are between 50 and 100 times thinner than existing rigid photo-voltaic cells. This reduction in thickness significantly reduces the per unit cost while producing significantly tougher, bendable photo-voltaic cells. The plant was developed and optimized at ECD's Troy, Michigan facility and then subsequently installed at the Sovlux facility. In order to facilitate this commercial relationship, the Russian Government has provided over \$10 million in hard currency towards the development and operation of this facility. IPP funds were used to fund training and initial salaries for start up activities and the pilot production run while a second project focused on improving the manufacturing process. In FY 1997, IPP funded two follow-on projects. The first will continue efforts to improve the manufacturing process and the second is the development and

implementation of a gas recycling process which will enable photo-voltaic manufacturers to recover and reuse inert gases from the photo-voltaic manufacturing process which will substantially reduce the per unit cost of photo-voltaic devices. The initial project was funded for \$750,000 with \$600,000 going directly to the Kvant-Sovlux facility. The second follow on project was funded at \$250,000 with virtually all of the funding going to the NIS. The follow on projects were funded at \$428,000 for the next phase of improving the manufacturing process while the gas recycling project was funded at \$184,000. In both cases the roughly 80 percent of the funds will support work in the NIS.

- **KhimProm/Volgograd Projects:** In FY 1997, four Phase I projects were set in place involving Pacific Northwest National Laboratory and KhimProm/Volgograd. These projects are being implemented in coordination with the DoD Cooperative Threat Reduction program and involve work by KhimProm engineering staff and management to put together "prospectuses" of technical and economic data for four prospective commercial products which could be produced at KhimProm. These prospectuses can then be shared with potential U.S. chemical industry joint venture partners. These projects are approved for a total of \$200,000, of which \$130,000 will flow to KhimProm under subcontracts.

U.S. NUCLEAR REGULATORY COMMISSION (NRC) - MATERIAL PROTECTION, CONTROL AND ACCOUNTING (MPC&A) ASSISTANCE

The NRC's efforts to provide material protection, control and accounting (MPC&A) assistance to the Russian, Ukrainian, and Kazakh regulatory authorities continued apace in FY 1997. These efforts focused on the following:

- developing comprehensive MPC&A regulations;
- establishing an MPC&A licensing program; and
- establishing an MPC&A licensing program.

NRC's efforts are an integral part of U.S. cooperative threat reduction and nonproliferation activities. The focus of NRC activities is to help provide for the safeguarding and elimination of nuclear weapons and the safeguarding and accounting of weapons-usable material (plutonium and highly enriched uranium) in the NIS countries.

NRC MPC&A assistance activities began with the Nuclear Regulatory Administration of the Ministry for Environmental Protection and Nuclear Safety of Ukraine (NRA/MEPNS), the Russian Federal Nuclear and Radiation Safety Authority (GAN) and the Kazakh Atomic Energy Agency (KAEA) in 1992. These activities have included provision of NRC MPC&A-related regulatory documents, assistance in development of country-specific MPC&A-related regulatory documents, provision of nondestructive assay and computer equipment, training on fundamentals of MPC&A inspection techniques and training on IAEA safeguards-related requirements.

Since FY 1993, NRC has received approximately \$3,000,000 in funds from the Defense Special Weapons Agency (formerly the Defense Nuclear Agency) under the DoD Cooperative Threat Reduction Program to support MPC&A assistance activities in Russia, Ukraine and Kazakhstan. These funds have been used in conjunction with U.S. Department of Energy resources to conduct the activities highlighted above, resulting in NRC providing training to over 150 Russian, Ukrainian, and Kazakh MPC&A inspectors.

SOCIAL-SECTOR AND HUMANITARIAN PROGRAMS

U.S. DEPARTMENT OF AGRICULTURE (USDA) - FOOD ASSISTANCE PROGRAMS

Armenia: In FY 1997, USDA donated approximately 12,000 metric tons (MT) of commodities through private voluntary organizations (PVOs) in Armenia. These PVOs included the Cooperative for Assistance and Relief Everywhere (CARE), the Fund for Armenian Relief, and the American International Association of the Hematologists of the World for Children (AIA). CARE's 6,000-MT monetization program carried out several activities to assist small-scale farmers and food processing enterprises in Armenia. The Fund for Armenian Relief used 4,000 MT of donated commodities for direct-feeding programs and several agriculture-related projects. Meanwhile, AIA distributed 2,000 MT of several commodities through feeding programs targeting children with hematological diseases. In addition to Food for Progress commodity donations, USDA used the P.L.-480, Title I concessional sales program to finance the purchase of 63,000 MT of wheat, valued at \$15 million, by the Government of Armenia in FY 1997. According to the purchase arrangement, the Armenian Government will continue to carry out several internal market reform activities. The Government of Armenia is expected to purchase U.S. agricultural commodities under the P.L.-480 program again in FY 1998.

Azerbaijan: In FY 1997, USDA provided assistance to Azerbaijan through a Food for Progress agreement with the Adventist Development and Relief Agency (ADRA). The one-year, 6,380-MT program distributed food commodities to refugees, female-headed households, children, the elderly and the infirm.

Georgia: USDA donated 19,480 MT of commodities to Georgia through five PVOs in FY 1997. The organizations with which Food for Progress agreements were reached included Agricultural Cooperative Development International (ACDI), CARE, the United Methodist Committee on Relief (UMCOR), Salvation Army World Services, and International Orthodox Christian Charities (IOCC). The ACDI, CARE and UMCOR programs sold a total of about 14,830 MT of USDA-donated commodities in the local Georgian market to generate proceeds to be used in support of small-scale agricultural development projects in Georgia. Meanwhile, the Salvation Army and IOCC carried out programs, mostly direct feeding programs, using 4,650 MT of commodities, to serve displaced, needy people. In addition, in FY 1997, USDA provided 108,970 MT of wheat, valued at \$20 million, under the P.L.-480 Title I program. This wheat will be used, in part, to continue ongoing market reforms, including providing wheat to private-sector bakeries and supporting the privatization of agricultural enterprises. USDA expects to implement a concessional sale to Georgia under this program again in FY 1998.

Kyrgyzstan: Kyrgyzstan received approximately 13,768 MT of USDA-donated commodities through the Food for Progress program in FY 1997. These commodities were distributed through ACDI, AIA, the American Red Cross, and Mercy Corps International (MCI). The American Red Cross program provided more than 2,000 MT of food commodities to needy people through direct feeding programs, while ACDI used monetized proceeds from the sale of 5,000 MT of wheat in support of agricultural development projects. AIA and MCI carried out both direct feeding and monetization programs, using 6,700 MT of USDA-donated commodities to help needy children and social service institutions. In addition, USDA provided 60,000 MT of wheat, valued at \$10 million, to the Government of Kyrgyzstan under a P.L.-480 Title I-funded Food for Progress program.

Moldova: In FY 1997, USDA and the International Partnership for Human Development carried out a humanitarian assistance Food for Progress program in Moldova for a third consecutive year, providing 1,370 MT of food commodities to several local hospitals, orphanages and social service organizations. An agreed-upon 2,000-MT Food for Progress program with the organization Lishkas Ezras Achim could not be implemented due to local taxation issues. In addition, the Government of Moldova declined to accept a planned \$10 million concessional sale of wheat under the P.L.-480, Title I program.

Russia: USDA donated 50,000 MT of food commodities to Russia under the Food for Progress program in FY 1997. This was accomplished through Food for Progress agreements reached with Chamah, the National Cooperative Business Association (NCBA), Feed the Children, and the Russian Farm Community Project (RFCP). The NCBA, Feed the Children, and RFCP programs involved the local sale of 48,000 MT of USDA-donated commodities, with the proceeds being used to support several agricultural enterprises, including a meat processing plant. The 2,000 MT Chamah program provided food commodities to needy children, the elderly and the disabled, through schools, soup kitchens, and medical and social programs.

Tajikistan: In FY 1997, USDA reached Food for Progress agreements for Tajikistan with four organizations: the Aga Khan Foundation, CARE, MCI, and the "Save the Children" Federation (STCF). These organizations distributed 18,400 MT of food commodities. The Aga Khan Foundation, CARE and STCF carried out direct feeding programs for needy people affected by Tajikistan's ongoing civil conflict. MCI distributed 3,200 MT of food commodities in a direct feeding and monetization program. The proceeds from MCI's monetization program were used to make small-scale agricultural loans. As in FY 1996, USDA provided 35,000 MT of wheat, valued at \$10 million, to the Government of Tajikistan under a P.L.-480 Title I-funded Food for Progress program in FY 1997. The objectives of the grant call for the Government of Tajikistan to provide food aid to ease local strife and to extend additional financial credit to private-sector agricultural producers. USDA is considering a P.L.-480, Title I-funded Food for Progress program for Tajikistan again in FY 1998.

Ukraine: Under its Food for Progress program, USDA donated nearly 16,900 MT of food commodities through four organizations in FY 1997: Agudath Israel of America, CitiHope International, Counterpart International, and LEA. These multi-faceted programs targeted pressing agricultural and humanitarian needs in Ukraine. Agudath Israel of America, CitiHope International and Counterpart International carried out activities in the agricultural sector, with a focus on extending small-scale agricultural loans and organizing farmers' and importers' associations. In its 1,800 MT direct feeding program, LEA provided food to the sick, elderly and displaced people, through hospitals, schools and social service programs. USDA also financed the concessional sale of 5,700 MT of cotton, valued at \$10 million, to the Government of Ukraine under a P.L.-480 Title I-funded program.

COORDINATOR'S OFFICE HUMANITARIAN ASSISTANCE PROGRAMS

The Humanitarian Programs Division of the Office of the Coordinator of U.S. Assistance to the NIS is responsible for coordinating and facilitating the delivery of emergency and transitional humanitarian assistance to the NIS with over 16 U.S. Government agencies, as well as for coordinating U.S. humanitarian assistance efforts with other donor countries and several international organizations. In FY 1997, the Coordinator's Office expended over \$14.4 million to leverage and facilitate the movement of privately donated and U.S. Government-funded humanitarian assistance commodities to targeted groups of needy individuals in the NIS.

Working closely with numerous U.S. private volunteer organizations (PVOs), contracted freight forwarders, and various government agencies, the Coordinator's Office transported and distributed over \$241 million in privately donated and U.S. Department of Defense excess commodities to the NIS in FY 1997. The Coordinator's Office funded several emergency and transitional humanitarian assistance programs targeted at the most needy populations in the NIS. Program highlights include the following:

- the final turnover in October 1996 of a \$15 million Defense Department excess medical package to a hospital in Yerevan, Armenia;
- the delivery in winter 1997 of 201,000 humanitarian daily rations (HDRs) to vulnerable groups in greatest need in Tajikistan. This donation of badly needed food was worked out jointly with USAID and the United Nations World Food Program;
- medical relief provided through the Red Crescent Society in the form of chlorine to fight typhoid and medicine and medical supplies through Relief International and AIHA for the people of Tajikistan;
- the award of a grant to the United Methodist Committee on Relief (UMCOR) to support the continuation of its work in Azerbaijan in operating eight separate medical clinics serving displaced populations in the region. In FY 1997, the Coordinator's Office was able to deliver almost three times more humanitarian medical commodities—approximately \$10.8 million—than it did the previous fiscal year, thanks to the establishment of these clinics and the pipeline they provided for critically needed medicines and supplies;
- the delivery in winter 1996-97 of over 300,000 HDRs (100,000 by air and 200,000 by surface) to the people of Kyrgyzstan through the PVO Counterpart; the main recipients of this assistance in Osh and Jalalabad were 5,000 disabled children and 2,500 orphans;
- the delivery of over 300,000 HDRs through the PVO Counterpart over a six-month period to establish a feeding program for children in seven orphanages in Azerbaijan;

- the coordination and delivery of a \$15 million DoD excess property hospital package to Tashkent, Uzbekistan. The project, our largest in FY 1997, began with the launching of our five-hundredth Provide Hope humanitarian airlift in June 1997. A ceremony presided over by First Lady Hillary Rodham Clinton was held at Andrews Air Force Base, and the C5-A she helped send off carried more than \$6.5 million in high-value pharmaceuticals to the people of Uzbekistan. Including transportation costs, this was a \$22.5 million project.
- the delivery in September 1997 of a follow-on hospital sustainability package for Almaty and Semipalatinsk valued at approximately \$500,000. These packages supplemented DoD hospital packages previously delivered to Kazakhstan under Operation Provide Hope in 1995 and 1996.

The Coordinator's Office leverages its limited amount of transportation funding for humanitarian assistance in such a way as to make the greatest possible difference in its efforts to address the humanitarian needs of the NIS countries. The following are country-by-country summaries of humanitarian assistance provided by the Coordinator's Office (S/NISC) in FY 1997:

(values are in millions of dollars)

(values are in millions of dollars)

(values are in millions of dollars)

(values are in millions of dollars)

(values are in millions of dollars)

(values are in millions of dollars)

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(values are in millions of dollars)

(values are in millions of dollars)

OTHER PROGRAMS

EURASIA FOUNDATION

The Eurasia Foundation, established in 1993 with a major grant from USAID, promotes democratic and market economic reform at the grass roots level in the twelve countries of the New Independent States (NIS) of the former Soviet Union. The Eurasia Foundation is privately managed and field-driven; it has built its reputation on its ability to offer a quick and flexible response to needs identified by NIS organizations and for reaching areas often untouched by other Western donors. Its primary tool is an open door grants program. In addition, and consistent with that goal, the Eurasia Foundation also manages a number of Foundation projects designed to encourage more professional economic policy research, a more rigorous small business sector, and a financially independent media.

The Eurasia Foundation works from its headquarters in Washington, D.C. and its seven NIS regional offices in Kiev, Moscow, Saratov, Tashkent, Tbilisi, Vladivostok, and Yerevan. It also has branch offices in eight other cities and local representatives in seven additional NIS cities. Since it was established, the Eurasia Foundation has awarded more than 2,000 small grants. During FY 1997 the average grant award was approximately \$19,500, with more than 90 percent being awarded directly to NIS organizations. The balance of the grants was made to U.S.-NIS partnership organizations. In FY 1997 alone, the Eurasia Foundation awarded approximately 790 grants totaling an estimated \$15,500,000.

Within its broad mandate, the Eurasia Foundation's grant-making activities generally fall within eight program areas:

Business Development: Projects support the growth and development of the private business sector, particularly small businesses. Foundation grants have supported such initiatives as training and counseling for entrepreneurs, information dissemination on topics of importance to businesses, promoting business associations, trade and export promotion, and legal and policy reforms aimed at improving the environment for private business. Grants in this area equated approximately 16 percent of the total awarded in FY 1997.

Business Education and Management Training: The Eurasia Foundation supports long and short-term training in the NIS in business and management. Projects have included development of teaching programs in universities and secondary schools, development of curricula and teaching materials, specialized short-term training in business topics, and training for managers in specific industries such as banking, real estate and agribusiness. Grants in this area equated approximately 19 percent of the total awarded in FY 1997.

Economics Education and Research: The Eurasia Foundation supports economics education and research programs that will improve economic policy-making in the NIS. The types of activities supported by the Eurasia Foundation include faculty training and development, development of curricula and teaching materials, policy-related economic research and public economics education. Grants in this area equated approximately 5 percent of the total awarded in FY 1997.

Electronic Communications: The Eurasia Foundation supports programs that help ensure a free flow of information to NIS citizens through easy and affordable access to the Internet. The Eurasia Foundation supports programs which: provide access to the Internet for non-profit NIS organizations; develop new on-line resources in NIS languages; provide training for users and administrators of Internet services; and produce resource materials on information available through the Internet. Grants in this area equated approximately 5 percent of the total awarded in FY 1997.

Media: The Eurasia Foundation supports efforts which boost the financial and editorial independence of media organizations, train journalists and editors of the independent media, explore and reform press laws and examine policy issues relevant to media freedom. Grants in this area equated approximately 9 percent of the total awarded in FY 1997.

NGO Development: Grants support a strong and independent "third sector" of non-governmental organizations (NGOs) which help build democracy by providing citizens with a forum for collectively voicing their views. Some of these help lessen the pain of economic transformation by providing alternative vehicles for the delivery of critical social services. The Eurasia Foundation supports programs that advance the development of the NGO sector as a

whole, including improving management of NGOs, developing local philanthropy and improving public awareness of the NGO sector. Grants in this area equated approximately 17 percent of the total awarded in FY 1997.

Public Administration and Local Government Reform: Grants support projects aiming to improve management capacity at the national, regional and local levels (with a particular emphasis on local government reform), explore innovative directions in the delivery of public services, promote regional economic development and expand mechanisms which provide feedback from the population to governing bodies. Grants in this area equated approximately 13 percent of the total awarded in FY 1997.

Rule of Law: The Eurasia Foundation supports programs which promote the rule of law in the NIS, including development of progressive legislation in Foundation mandate areas, promoting basic civil rights before the law, encouraging public participation in the legislative process, improving access to information on laws, regulations and decrees, and supporting alternative means of dispute resolution. Grants in this area equated approximately 16 percent of the total grants awarded in FY 1997.

In addition to its grant-making activities, the Eurasia Foundation takes the lead in mobilizing private and government resources to address critical needs not being met by other assistance programs. The Eurasia Foundation currently manages three special initiatives that leverage significant amounts of private and government support:

The Small Business Lending Program (SBLP): Working through local banks, the Eurasia Foundation provides loans (up to \$100,000) to small and medium businesses, for terms of up to 2 years. The program provides much needed capital to the fledgling private sector and intensive, hands-on training to participant bank lenders in credit analysis and collection methodology. The program currently has representatives in Ukraine and Armenia. In FY 1997, the SBLP made 39 loans totaling \$1,060,571.

The Economics Education and Research Consortium (EERC): The EERC was created to improve economic policy making through programs aimed at raising the level of the economics profession in Russia and Ukraine. In Ukraine, the EERC supports the development of a Master in Economics Program at the University of Kiev Mohyla Academy. In Russia, the EERC supports small research grants and a series of complementary activities that help build a professional community of Russian economists. Consortium members include: the Eurasia Foundation, the Open Society Institute (Soros), the Ford Foundation, the World Bank, the Starr Foundation, the Royal Ministry of Foreign Affairs of Norway, and the Pew Charitable Trusts. In FY 1997, approximately 51 grants were awarded.

The Media Viability Fund: The Media Viability Fund is a joint effort of the Eurasia Foundation and the Media Development Loan Fund, with critical support from USAID. It aims to strengthen the independent media through two mechanisms: targeted, low cost loans to newspapers and other media organizations for the acquisition of equipment, and small grants for technical support, improved access to information and management training. Operating in Russian and Ukraine, the MVF is building the financial and institutional capacities of an independent media sector as well as increasing public access to information - leading to increased, better-informed citizen participation in political and economic decision-making.

Private Sector Funding: The Eurasia Foundation has raised more than \$10 million in private sector funds, \$4 million of which was raised in FY 1997. The Eurasia Foundation's fundraising goal for FY 98 is \$5 million in private sector funds - approximately 15 percent of its planned FY 98 budget and 20 percent of its planned USAID obligation for FY 1997.

PEACE CORPS

As of January, 1998, approximately 744 Peace Corps Volunteers are serving in eight NIS countries. These Volunteers work primarily in three sectors: Education (60 percent of NIS-based Volunteers), Economic Development (30 percent), and the Environment (10 percent). The Peace Corps plans to increase the number of Volunteers serving in the NIS 1998.

Peace Corps Volunteers working on education projects in the NIS mainly focus on teaching English as a foreign language. Although most teach in secondary schools, the number of Volunteers teaching at the primary level is increasing. Peace Corps Education Volunteers are also working with their communities to develop curricula for English instruction by host country professionals.

In six NIS countries, the Peace Corps has assigned Volunteers to economic development projects. Here, Peace Corps Volunteers work with a variety of institutions—including business advisory centers, banks, local governments, educational institutions, NGOs, and business associations—as they help their counterparts gain the skills necessary to work successfully within a market economy. Peace Corps Volunteers are also meeting the growing demand in those countries for general business education and instruction in business English.

Peace Corps Volunteers are working on environmental projects in Kazakhstan and Russia, and the Peace Corps is starting a new environmental project in Ukraine. Environmental Volunteers are devoting their energies toward strengthening the capabilities of both non-governmental and governmental organizations to conduct public education on the environment; they are also participating in a variety of specific Environment projects.

Finally, in Turkmenistan and Moldova, Volunteers are working in the area of community health development. In FY 1998, Peace Corps plans to launch health projects in Uzbekistan and Kazakhstan. Other programming initiatives — primarily focused on strengthening existing programs — are under consideration.

Kyrgyzstan: Seventy-nine Peace Corps Volunteers are currently based in Kyrgyzstan. Working at sites spread around the country, they are concentrating their efforts on education and economic development projects. Education Volunteers are working with students and teachers to increase the quality of English instruction and to update teaching methodologies. In the economic development arena, Volunteers are working to strengthen non-governmental organizations that serve the private sector.

This year—1998—marks the fifth anniversary of the Peace Corps in Kyrgyzstan. To observe the occasion, the Peace Corps is planning to perform a thorough assessment of its program in the country, including the feasibility of sending Volunteers in the areas of environmental education, reforestation, and soil conservation.

Kazakhstan: Kazakhstan currently hosts 84 Peace Corps Volunteers, who work in education, environment and economic development projects. Education Volunteers devote their efforts to improving English instruction and, with students and host country teachers, creating community-based resource centers. Economic Development Volunteers work in school systems, teaching the principles and workings of market economics. Those Volunteers who are assigned to Environment projects work primarily in environmental education, non-governmental institution building, and epidemiological research. Peace Corps plans to begin a new community health project in 1998.

Turkmenistan: Sixty-three Peace Corps Volunteers are working throughout Turkmenistan in assignments related to education, economic development, and health. In addition to their work with school systems, Education Volunteers teach English to medical professionals, increasing the health care providers' ability to communicate with other health care systems world-wide. Economic Development Volunteers concentrate on teaching the principles of market economics and also to improve their students' computer capabilities and Internet access. Health Volunteers are currently collaborating with host country professionals to develop a plan for upgrading the national health curriculum. Like its Central Asian neighbors, Turkmenistan faces pressing issues of environmental management. In 1998, the Peace Corps will assess the feasibility of expanding into environmental education, reforestation, and soil conservation.

Uzbekistan: Placed throughout Uzbekistan, 55 Peace Corps Volunteers work in education and economic development. Education Volunteers teach English and work in tandem with local teachers to enhance their teaching skills. Economic Development Volunteers work in school systems, teaching the principles of market

economics; they also consult with local entrepreneurs. In 1998, the Peace Corps will continue its work in these areas, and also plans to begin sending Volunteers on community health assignments. It will also explore the feasibility of expanding into the environmental sector.

Moldova: In August 1997, the Peace Corps swore in 48 new Volunteers in Moldova, bringing its current total to 80. The August class was the fifth group of Volunteers to enter Moldova since the program began in June 1993. Peace Corps places its Volunteers in business and English education projects, and recently assigned several Volunteers to a pilot health education project. Based in regional school headquarters, six Health Volunteers are working through the Ministry of Education to develop a secondary school health curriculum that addresses critical public health issues. A new group of 62 Volunteers is scheduled to arrive in Moldova in June 1998.

Russia: In FY 1997, 107 new Peace Corps Volunteers began service in Russia. There are currently 159 Volunteers serving in Russia. English instruction represents the largest assignment area for Peace Corps Volunteers in Russia, with Volunteers teaching in secondary schools, universities, and teacher training colleges and institutes in both Western Russia and the Russia Far East. A second area of service is business management, where Volunteers provide consulting services and business education and training. Business Volunteers now work in business centers, city administrations, institutes, NGOs and business incubators. In Russia Far East, Volunteers work in a third area—the environment. Here, Volunteers are concentrating on environmental education and the development of non-profit, non-governmental organizations dedicated to the environment.

Armenia: Forty-seven Volunteers are currently serving in education and business programs in Armenia. Education Volunteers teach English at the secondary school level, conduct summer language camps for students and facilitate methodology workshops for teachers. Business Volunteers, working through business development centers, help to organize business service centers, train managers, consult with entrepreneurs, and provide general business advice. In the past year, Peace Corps Volunteers helped establish three new non-profit business development centers managed and operated by community residents. Volunteers also enhanced business skills development among Armenian youth through Junior Achievement and related activities.

Ukraine: There are currently 177 Peace Corps Volunteers serving throughout Ukraine, working at educational institutions, governmental agencies, business associations, privatization offices, and non-governmental organizations. In cooperation with the National Agency of Ukraine for Reconstruction and Development and the Cabinet of Ministers, Peace Corps Business Volunteers in Ukraine are working to transfer free market business skills and expertise at local and regional levels. To date, Volunteers have helped Ukrainian businesses obtain more than \$2 million in funding assistance. A new group of 48 Business Volunteers will arrive in Ukraine in February 1998. Education Volunteers are assigned to secondary schools, pedagogical institutes, and universities as teachers of English. Volunteers also provide assistance in curriculum development, facilitate teacher training workshops, and establish English clubs. The newest area for the Peace Corps in Ukraine is the environment, where Environmental Education Volunteers will be working with both governmental and non-governmental organizations to expand public awareness of environmental threats and their impact on natural resources.

U.S. SUPPORT FOR INTERNATIONAL FINANCIAL INSTITUTIONS

In addition to bilateral assistance from the United States and other donors, the NIS countries continued to draw upon the support of international financial institutions in FY 1997, which with the strong support of the United States and its G-7 partners, responded innovatively to the special circumstances of post-Soviet economic transition. The three international financial institutions most active in the region—the International Monetary Fund (IMF), the World Bank, and the European Bank for Reconstruction and Development (EBRD)—continued to increase their level of activity in the NIS in FY 1997.

The International Monetary Fund (IMF)

In the years following the dissolution of the Soviet Union, most NIS countries successfully stabilized their economies with short-term financial assistance and policy advice from the IMF. Utilizing IMF resources has allowed NIS countries to undertake needed structural reforms, reduce inflation, avoid balance-of-payments problems, and lay the foundations for economic growth.

In order to receive IMF financial support, the NIS countries must agree to implement economic reform programs. Disbursed in tranches, IMF loans are conditional on observance of reform-oriented economic criteria. In addition to financial assistance, the IMF administers an extensive technical assistance program in the NIS. The IMF also works closely to coordinate its programs with those of other international financial institutions such as the World Bank and European Bank for Reconstruction and Development (EBRD).

New IMF resources committed to the NIS in FY 1997 totaled about \$720 million. However, several countries, including Russia, continued implementing medium-term programs, worth about \$12 billion, begun in 1996. The IMF's medium-term programs, which usually last three years, allow countries that have stabilized their economies to broaden and deepen structural reforms necessary for economic growth.

Economic performance under IMF programs in the NIS was generally positive in FY 1997. Of particular note, Russia reversed the long economic slide that had beset it since the fall of the Soviet Union and posted GDP growth of about 0.3 percent for the year. However, fiscal problems, notably with tax collection, caused the IMF to temporarily delay disbursements for Russia and Ukraine. The IMF suspended programs in Belarus and Uzbekistan because of unsatisfactory performance on economic reforms. In the Caucasus, Georgia and Armenia undertook ambitious reforms as part of medium-term IMF programs. The IMF approved a medium-term program in Azerbaijan in recognition of its serious reform efforts.

European Bank for Reconstruction And Development (EBRD)

The EBRD was formally established in March, 1991 to support market-oriented economic reform and democratic pluralism in Central and Eastern Europe (including the former USSR). All 12 NIS countries are EBRD members.

The EBRD is unique among multilateral development banks in its private sector focus and inclusion of political conditionality, which requires beneficiaries to be committed to democracy and the rule of law.

Through the end of FY 1997, the EBRD had made cumulative commitments (net of cancellations) to individual NIS countries of approximately ECU 5.1 billion* out of EBRD's total country-specific commitments of about ECU 12.1 billion. The figure for the NIS does not include approximately ECU 1.1 billion in regional projects such as venture funds that the EBRD has financed, a number of which benefit the NIS. Russia is the single largest beneficiary of EBRD commitments, accounting for 25 percent of total Board approvals.

By its charter, the EBRD is required to devote 60 percent of its total resources to private sector projects within five years of Bank start-up. As of September 30, 1997, 72 percent by value and about 80 percent by volume of Bank commitments were to the private sector. The Bank is also supposed to meet the 60-percent threshold in each individual country of operation within five years of beginning operations in the country. Among the NIS, more than 60 percent of commitments (by value) are to the private sector in Kazakhstan, Russia, Tajikistan, and Turkmenistan; the target is not currently being met in the other eight NIS.

CUMULATIVE EBRD BOARD APPROVALS TO NIS
THROUGH SEPTEMBER 30, 1997
(millions of ECU*)

	Value	Number	% Private
Armenia	85.8	3	0
Azerbaijan	118.3	6	15
Belarus	175.4	6	27
Georgia	63.9	7	45
Kazakhstan	223.7	4	79
Kyrgyzstan	97.2	6	56
Moldova	119.7	8	40
Russia	3119.1	95	87
Tajikistan	9.3	2	100
Turkmenistan	59.2	2	100
Ukraine	554.9	21	50
<u>Uzbekistan</u>	<u>462.4</u>	<u>13</u>	<u>67</u>
Total	5088.9	173	

* As of January 7, 1998, one ECU equaled approximately \$1.08. Totals for individual countries reflect cancellations of previously approved projects and exchange rate variations. They represent approvals by the Board, not actual signed commitments or disbursements, which are lower.

U.S. CONTRIBUTIONS TO THE EBRD

FY 1991	\$70 million
FY 1992	\$69 million
FY 1993	\$60 million
FY 1994	\$0
FY 1995	\$69.2 million
FY 1996	\$70 million
FY 1997	\$12 million
FY 1998	\$35.8 million

The U.S. has a 10 percent share in the EBRD and is its largest single shareholder. U.S. contributions to the EBRD for its initial capital contribution were to be paid in five annual installments of \$70 million each. Except for FY 1991, appropriations fell short of the \$70 million leaving the United States with arrears of more than \$80 million after the five year period. The arrears were fully cleared in FY 1997.

In early 1996, the EBRD Board of Governors approved a doubling of the EBRD's total (paid-in plus callable) capital from ECU 10 billion to ECU 20 billion. This increase should put the Bank on a self-sustaining basis, with no future capital increases envisioned. In FY 98, the U.S. will begin payment for the capital increase at a rate of approximately \$36 million per year over eight years.

U.S.-ISRAEL COOPERATIVE DEVELOPMENT PROGRAM (CDP)

The USAID-supported U.S.-Israel Cooperative Development Program (CDP) was established in 1988 to support and facilitate the identification and delivery of Israeli technical assistance and training to address a broad range of developing-country assistance requirements for which Israeli experience, technology and expertise are particularly well-suited. In 1992, program operations were extended to Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. Similarly, geographic coverage was extended in 1993 to Georgia.

The CDP provides financial support for assistance projects jointly programmed by Israel through MASHAV, the foreign assistance unit within the Israeli Ministry of Foreign Relations, and USAID. The CDP is implemented by Israel for developing countries. Proposed activities may be based on requests from developing countries, identified jointly by MASHAV, host country officials, and USAID, or identified by USAID. Given Israel's expertise and experience, the principal focus of each program is agriculture and related areas, with an emphasis on soil and water management, agricultural economics and farm management, irrigation systems management, intensive livestock husbandry, vegetable production and irrigation, and managed farm development enterprises. The FY 1997 budget for activities in Central Asia was \$1.7 million, with USAID contributing two-thirds and MASHAV contributing one-third.

- A total of 240 trainees attended agricultural production training courses held in Israel (7 courses), Kazakhstan (2 courses) and Uzbekistan (1 course). Twelve short-term consultancies were carried out in agriculture (irrigation, dairy management and meteorology) and health (Caesarian operations). Eight agricultural experts had long-term assignments on demonstration farms. In FY 1997, emphasis was placed on developing project-demonstration activities, encouraging individual and privately organized farming entrepreneurs in such areas as dairy husbandry development and high-value crop production in both open field and greenhouses, with an emphasis on water conservation and diversification.
- The diets of dairy cows were improved using locally available feed supplies. Practices developed and demonstrated on farms established by CDP were adopted by local farmers. The improvement in diets led to more than a tripling of annual milk production, from an average of 1,500 liters per year to close to 5,000 liters per year.
- A group of individual farm owners in Uzbekistan and Kyrgyzstan organized and established mini-dairy processing units which produced high-quality cheeses and yogurts. In both countries, the units engendered higher incomes, derived from the marketing of cheese and other milk derivatives to local consumers, and successfully demonstrated privatization in family-farm-based dairy development. Farmers affiliated with these processing centers experienced a twenty-fold increase in their incomes.

U.S.-ISRAEL COOPERATIVE DEVELOPMENT RESEARCH (CDR) PROGRAM

Under the USAID-funded U.S.-Israel Cooperative Development Research (CDR) Program, a special initiative was established in 1992 to provide U.S. Government funding for cooperative applied research involving Israeli scientists and their counterparts in Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan and Georgia, so that they could work on significant development problems facing those newly independent countries. This initiative focuses on research in arid-land agriculture—an area of Israeli strength and particular need in Central Asia—and includes projects in water management and environmental protection, as well as agronomy and livestock management. Like the rest of the CDR Program, the CDR initiative in Central Asia and Georgia (CDR/CAR) is not focused on the economic development of Israel, but emphasizes areas in which Israeli research interests and expertise are particularly valuable to the targeted countries.

The CDR/CAR Program has the following objectives: 1) to provide limited assistance to maintain the scientific communities of Central Asia and Georgia; 2) to provide financial and technical assistance for research directed toward basic needs of the people in the region; 3) to expose the NIS scientific community to the Western-style system of competitive institutional-grants; 4) to utilize Israeli expertise and practical scientific methods, primarily in the management of science and technology for improving agriculture; 5) to establish multiple independent links between the people of this historically Muslim region and Israel; and 6) to link the formerly isolated scientific community of the region with the world scientific community.

Since 1993, CDR/CAR has awarded over 50 research grants of up to \$150,000 (not including the considerable matching funds provided by Israeli institutions). Projects are chosen from proposals jointly authored by Israeli and target-country scientists, and selections are made by USAID on the advice of peer-review panels composed of U.S. scientists. The U.S. Government is identified as the donor, and American scientists are eligible to participate as funded third partners.

A number of technical results were achieved in FY 1997, including the development of new diagnostics and vaccines for Central Asian strains of livestock diseases and potato viruses, the development of germplasm collections to preserve the native diversity of Central Asian strains of melons and wild barley, the creation of a system that uses satellite image data to monitor droughts and predict vegetation patterns for livestock grazing, the discovery of new Central Asian varieties of a bacterium that produces proteins which are naturally toxic to insect pests while harmless to humans, the development of photo-stabilized preparations of insect-toxic bacteria in Georgia, the discovery of oil-degrading bacteria native to Kazakhstan, and the finding of fast decay rates for toxic pesticide residues in the Kara Kum Canal. In addition, progress was made towards biological control of whiteflies, new chemical synthetic routes, adaptation of local apple stock for heat- and drought-resistance by grafting, and developing cold-tolerant melons from local germplasm. CDR also provided key support for priority projects with a regional focus, such as a water-management research project in Kyrgyzstan whose benefits would also accrue to other countries downstream, and which have resulted in the development of polymer-based erosion control methods and progress towards river basin modeling.

In addition to technical discoveries, the CDR Program has provided valuable links to otherwise isolated scientific communities in Central Asia and Georgia. It has provided funding for research equipment, international travel, periodicals and access to electronic mail. The training of students from the region, both in their home countries and in Israel, is a key part of nearly every CDR grant. In addition, the program has provided many institutions with their first exposure to a competitive, Western-style research grant, and this in turn has created the impetus for banks in the region to establish accounts and transfer procedures more consistent with modern practices.

PROGRAM FOR RESEARCH AND TRAINING ON EASTERN EUROPE AND THE NIS (TITLE VIII)

In 1983, the U.S. Congress passed the Research and Training for Eastern Europe and the Independent States of the Former Soviet Union Act (Title VIII), which was designed to reverse the decline in the number of U.S. experts on these regions by providing stable, long-term financing on a national level for advanced research; graduate area studies and language training (both U.S.-based and in-country); public dissemination of research data, methods and findings; and contact and collaboration among governmental and non-governmental specialists.

The Title VIII Program operates under the guidance of an advisory committee chaired by the Department of State and consisting of representatives of the Secretaries of Defense and Education, the Librarian of Congress, and the presidents of the American Association for the Advancement of Slavic Studies (AAASS) and the Association of American Universities. Under the program's two-stage award process, the Department of State conducts an annual open competition among national organizations with interest and expertise in administering research and training programs in the NIS and Central European fields. The U.S. Congress appropriated about \$4.6 million annually for Title VIII activities from FY 1985 to FY 1990, and in light of the dramatic changes in the region, about \$10 million annually from FY 1991 to FY 1994. In FY 1995, the Title VIII Program was funded at \$7.5 million, with \$5.0 million from the FREEDOM Support Act for projects on the NIS and \$2.5 million from the Support for East European Democracy (SEED) Act for projects on Central Europe (CE), including the Baltic countries. In FY 1996, the Title VII Program was funded at \$5.0 million, with \$3.3 million from the FREEDOM Support Act and \$1.7 million from the SEED Act. In FY 1996, the Title VII Program was funded at \$4.2 million, with \$3.3 million from the FREEDOM Support Act and \$900,000 from the SEED Act. The following is a list of FY 1997 Title VIII grant recipients for NIS-related projects, including the amounts and purposes of their awards:

American Council of Teachers of Russian (ACTR)

- Grant: \$200,000

- Purpose: To support graduate students, post-doctoral fellows and junior faculty members in Russian and Eurasian studies for advanced on-site language training and research;

Council on International Educational Exchange (CIEE)

- Grant: \$50,000
- Purpose: To support fellowships for advanced and specialized on-site Russian language training;

Institute of International Education (IIE)

- Grant: \$68,338
- Purpose: To support the Professional Development Fellowships Program, which serves young specialists in the professional fields with NIS-related career objectives;

International Research and Exchanges Board (IREX)

- Grant: \$1,035,000 (\$765,000 NIS; \$270,000 CE/Baltics)
- Purpose: To support a variety of programs facilitating U.S. scholarly access to Russia, Eurasia and Central Europe, including individual field-research grants, short-term travel grants, special collaborative projects and dissemination of research findings to U.S. policy-makers and opinion leaders through policy forums, books and other publications;

National Academy of Sciences (NAS)

- Grant: \$50,000
- Purpose: To support a Young Investigator program on Armenian energy security;

National Council for Soviet and East European Research (NCSEER)

- Grant: \$941,662 (\$841,662 NIS; \$100,000 CE/Baltics)
- Purpose: To conduct a one or more national competitions among individual specialists and U.S. institutions of higher education and non-profit organizations in support of advanced research projects on Russia, Eurasia and Central Europe.

Social Science Research Council

- Grant: \$760,000
- Purpose: To support a national fellowship program for dissertation completion and post-doctoral research, and a competition for grants to U.S. institutions offering intensive training in NIS languages;

University of Illinois at Urbana - Champaign

- Grant: \$100,000 (\$92,000 NIS; \$8,000 CE/Baltics)
- Purpose: To provide partial funding for the University's Summer Research Laboratory and the Slavic Reference Service.

Woodrow Wilson Center for International Scholars

- Grant: \$715,000 (\$465,000 NIS; \$250,000 CE/Baltics)
- Purpose: To support research scholarships, fellowships and internship, short-term grants, meetings and outreach publications of the Kennan Institute for Advanced Russian Studies and the East European Studies Program.